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The Political Economy of Arms Sales

William Keller, Monterey Institute of International Studies

Why Do States Build Nukes?

Scott Sagan, Stanford University

The Conventional Weapons Trade

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"The most likely compromise between the current reality in Bosnia and the goal of Dayton is an extremely weak, fragile, and relatively unstable country—a country in name and international recognition only without a central capacity to manage trade and finance, one that might continue to demand external assistance and protection for a long time."

Bosnia after Dayton: Year Two

SUSAN L. WOODWARD

The Dayton accord of November 21, 1995, to end the nearly four years of war in Bosnia and Herzegovina was a turning point: in the most violent and disruptive war in Europe in 50 years; in a Balkan crisis that could still destabilize the most geostrategically sensitive area of the continent; and in American leadership in the post-cold war era. Dayton established a "general framework agreement for peace" intended to consolidate the cease-fire signed October 10, 1995; it is also designed to set the conditions for a sustainable peace with international assistance and ensure a united, sovereign, and viable Bosnia and Herzegovina.

When the NATO-led force to implement the accord (IFOR) took over command from the UN Protection Force (UNPROFOR) on December 20, 1995, scholars of peace settlements emphasized that the Dayton accord's success would depend on international commitment to its implementation. The record of the first year adds two more lessons: that the terms of the accord also matter to the outcome, and that the outside powers in charge of implementation (American and European organizations

primarily) can create difficulties of their own if they are not prepared.

Much has been accomplished. The spectacular success of IFOR in separating the warring parties, demobilizing armies, and removing police checkpoints has stopped the fighting. Prisoners of war have been exchanged, and confidence-building measures among the armies of the three warring parties operate well. Elections at the national, entity, and cantonal levels took place on schedule on September 14, 1996, with minimal violence. Bosnia had joined the IMF and the World Bank before the elections, and aid for economic reconstruction had begun to flow by June. No one visiting Bosnia and Herzegovina in the summer of 1996 could fail to sense the change in mood since IFOR's arrival: the tentative hopefulness, the slow improvement in physical conditions, the willingness to admit a longing to see close relatives and friends on the other side of military confrontation lines, and the nearly universal desire for a job and normal life.

Nonetheless, the results of the September elections were disheartening to many. Far from providing a smooth transition and easy exit for IFOR, the elections predictably gave a democratic stamp of approval to the three nationalist parties that had waged the war. Irregularities in voter lists, accusations that conditions for a free and fair election did not exist, and fears of violence led the Organization for Security and Cooperation in Europe (OSCE) mission to postpone municipal elections indefinitely. The three ruling parties have continued their prewar and wartime policies of seeking total party control

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within their own community, pursuing their definition of national political and economic interests in all encounters, and collaborating with each other on a division-of-spoils principle by competing for party control of specific ministries and jurisdictions while locking competitors out.

The tight and inflexible deadlines set to allow American soldiers to leave in 12 months, and the lack of organization and funding for the civilian operation until late spring, did little to counteract the human and physical forces working for separation. The resources of the international intervention—territorial demarcations, humanitarian aid, economic assistance, electoral laws, government ministries, and population resettlements—increased the ruling parties' advantages over opposition parties. Whether one looks at communication, the settlement of refugees and displaced persons, or political power, the goal of a multiethnic, unified Bosnia was further from realization than at the time of the Dayton signing.

Despite a painfully long wait for American commitment, consensus that the departure of NATO forces without a follow-on force would see an almost immediate resumption of the war was taken to heart. On December 20, 1996, the 55,000-person IFOR handed over command to a Stabilization Force (SFOR) of 31,000 to be deployed for another 18 months under United States army General William Crouch. It plans to downsize after 12 months to a much smaller Deterrence Force (DFOR).¹ The major powers have recognized that their own lack of coordination and preparation for civilian tasks has contributed substantially to slowing the pace of the civilian aspects of the accord and allowed the parties to play one international organization or foreign power off against another. The second annual conference on civilian implementation, held in London on December 4 and 5, 1996, aimed to improve coordination under the authority of the Office of the High Representative, but not to hand it any power, and to improve enforcement through assertive, coordinated use of economic conditionality against local parties that do not comply.

Will a commitment to maintain a military presence for 18 more months, improved coordination on the civilian side, and greater willingness to

enforce the accord lead to success? Already United States officials have quietly shifted to more modest goals of preventing a resumption of war but leaving the political outcome to the parties themselves. Their European allies have long given priority to regional stability, although for some countries, such as Italy or Germany, this requires a certain political outcome in Bosnia. Officials on both sides of the Atlantic, however, remain convinced (or is it hopeful?) that the process of implementing the Dayton accord will work.

SILENT OCCUPATION

The peace process in Bosnia and Herzegovina is a silent occupation. Both military and civilian officials repeat almost daily that peace will not come to Bosnia unless the parties want it, and that the international community is there only to assist the parties in implementing their agreement. Nonetheless, the process is strictly governed by the document negotiated at Dayton, Ohio, and by the instructions and vigilant oversight of its international implementers.

The Dayton accord is a shopping list of compromises drawn up by the negotiators, then bargained and revised by one representative of the three warring parties (President Alija Izetbegovic) and the presidents of neighboring Croatia and Serbia, representing the other two Bosnian parties. A set of 11 annexes commits the outside powers and local parties to specific tasks for its realization. Its virtue is to legitimize an international military intervention force and civilian administration—and above all American troops—with consent, leaving intact international norms of sovereignty.

But that pledge of consent and cooperation was given by only one of the three warring parties' leaders—President Izetbegovic, leader of the Bosnian Muslims (now preferring the label Bosniac), whom the negotiators took to represent the whole of a sovereign Bosnia. The Bosnian Croat and Bosnian Serb delegations refused to sign the accord. American negotiators looked instead to Croatian President Franjo Tudjman and Serbian President Slobodan Milosevic, as imputed patrons and suppliers of political protection and military support to their Bosnian conationals, to ensure the cooperation of their Bosnian counterparts, and thus to signal that sovereignty cannot be divided or shared. For the three warring parties, the accord is only a truce while they continue to pursue their wartime goals by other means.

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¹SFOR includes 8,500 American soldiers on the ground; the 13,500 soldiers who will be part of DFOR will include 5,500 Americans.

Behind the commitment to a united and sovereign Bosnia, however, lies a complex agreement that is structured around two separate cease-fires, prescribing four competing and only partial strategies for peace, and containing no overall conception of a final political outcome. The kernel of the Dayton accord is the Washington Agreement of March 1994 between the Bosniacs of the Party of Democratic Action (SDA) and the Bosnian Croats' Party of Croatian Democratic Union (HDZ) to cease hostilities and form a federation. Dayton extends this agreement to the remaining territory of Bosnia, recognizing Serb areas as a separate entity, Republika Srpska. The state of Bosnia and Herzegovina is comprised of these two constitutional entities—the Bosniac-Bosnian Croat federation and the Serb Republic. These two bilateral agreements are, in fact, on separate tracks, the first having begun in March 1994 and the second after the formal signing of the Dayton accord in Paris on December 14, 1995, with different dynamics and separate international tutelage.

NO COHERENT STRATEGY FOR PEACE

The lists of tasks in the Dayton accord do not form a coherent strategy for peace but four implicit and partial strategies that are in conflict. First, implementation of the two cease-fires follows the logic of classic peacekeeping. Vast global experience with ending civil wars demonstrates that no matter how much parties to armed conflict desire peace and behave in a conciliatory fashion toward their former enemies, there is a vulnerable transition period between war and peace when neither side can trust the other. The belligerents need outside parties who are willing to provide a psychological bridge until individuals begin to believe that the war is over and reorient their behavior toward peace and reconciliation.

The first stage of such assistance is from foreign military personnel who oversee the separation of military forces, their demobilization, the restoration of freedom of movement for civilians, and the transfer of security functions to civilian police. The next step is economic aid and reconstruction to provide demobilized soldiers opportunities to work while international monitoring of human rights and civilian police forces continues to provide psychological security as the trust necessary to a political settlement is rebuilt.

The specific tasks of IFOR were limited to the second of the two cease-fire agreements and this first stage of peace: to separate the warring parties along

a zone of separation between the Bosniac-Croat Federation and the Serb Republic called the inter-entity boundary line (IEBL); oversee the transfer of political authority between the two Bosnian entities where the front line of October 1995 and the IEBL drawn at Dayton did not coincide; help the parties negotiate hundreds of minor adjustments in that IEBL; and monitor compliance and subsequent confidence-building measures among the three armies.

The political character of these two cease-fires is different, however. The purpose of the federation for its patrons, Washington and Bonn, was to end the fighting between Bosnian Croats and Bosnian Muslims (which, at the time of the Washington Agreement, was especially vicious in central Bosnia) by reviving their anti-Serb alliance of October 1991–October 1992 and redirecting their military forces in common action against the Bosnian Serbs. The Dayton agreement preserves this attitude. Diplomatic attention, economic aid, and technical assistance have been largely directed to the federation to transform it from a tactical wartime alliance into a real federation. Economic sanctions remained on the Bosnian Serbs until they had demonstrated their cooperation with the cease-fire through its full 120 days of implementation in March 1996. World Bank aid focused solely on the federation until summer; by year's end, 98.7 percent of all public assistance had gone to the federation, with only 1.3 percent to the Serb Republic. No IFOR military assets were deployed along the Croat-Muslim confrontation line, which is not even recognized by the Dayton accord. American principals still perceive the greatest danger to the Bosnian state to be the Bosnian Serb's military capacity, and an overriding purpose of the federation and the Dayton accord was to create a military balance to deter renewed military expansion by Bosnian Serbs.

This attitude toward the Bosnian Serbs, American theories of war termination, and the view of the Clinton administration that the war was external aggression made possible by a military asymmetry (especially of heavy weaponry) yield a second strategy that is not fully compatible with the peacekeeping mission of IFOR/SFOR troops. This strategy says that the Dayton cease-fire will not become a sustainable peace until there is a military balance between the two entities and the Bosnian government has the capacity for self-defense. Annex 1-B on "military stabilization" contains elements of arms control demanded by Europeans at Dayton,

but it is premised on the prior, bilateral military balance.²

Stabilization—a primary goal of the SFOR mission in 1997—began with the staged lifting of the arms embargo on the Bosnian government (light weapons after three months, and heavy weapons and aircraft after six) and a commitment by American negotiators at Dayton to “train and equip” a Bosnian army (a united army of the federation, not a pan-Bosnian army) able to defend against Bosnian Serbs. The signatures of Presidents Milosevic and Tudjman are meant to guarantee that they have abandoned plans to partition Bosnia between them and to guarantee Bosnian sovereignty within its prewar republican borders. In October 1996 a separate agreement was signed, under French auspices, on mutual recognition between Izetbegovic and Milosevic.

More significant is the informal guarantee implied in the American military and diplomatic presence. Europeans focus instead on a regional arms control regime, negotiated at Vienna on the treaty on Conventional Forces in Europe principles of transparency, cooperation, and stable force levels for Bosnia, Croatia, and Yugoslavia, and between the parties within Bosnia and Herzegovina, and on a ratio of forces agreed at Dayton based on population (5:2:2 for Yugoslavia, Croatia, and Bosnia, and 2:1 for the federation and the Serb Republic). An important monitoring task for SFOR in 1997, this regime requires some armies (particularly in Yugoslavia and the Serb Republic) to cut their holdings of heavy weapons (tanks, artillery, combat aircraft and vehicles, attack helicopters) while permitting others to build up.³

Although Dayton is explicitly a negotiated agreement and not a victors’ justice, some of the accord’s

tasks also reflect a moral indictment and political judgment on war guilt. This aspect, a demand for justice, represents in part the broader foreign policy goals and position of the Clinton administration to deter rogue states (as it labels Serbia) and serious violations of international humanitarian law in the future, and in part a set of conditions for signing the accord made by President Izetbegovic. For Izetbegovic, the Dayton accord is not a just peace, and without justice, there will be no peace. In the words of the negotiators, the accord “takes sides” politically with Izetbegovic’s party, the SDA, on the argument that his constituency, the Bosnian Muslims, was the primary victim of aggression and genocide and that he represents the political value of multiethnic cooperation.

This third strategy has two separate elements. One assumes that without a sense of justice, there will be no end to the cycles of retribution and revenge. Bosnian citizens must be persuaded that there is a universal standard the international community is willing to enforce, however belatedly; Muslims must feel vindicated; and Serbs must have the indictment of collective guilt removed by holding individual political and military leaders responsible for the war. “Ethnic cleansing” must therefore be reversed, giving all persons the right to return to their prewar homes or receive compensation.

The International Criminal Tribunal for the former Yugoslavia, set up at The Hague in 1994, will judge serious violations of international humanitarian law in addition to improving the institutional capacity and obligation of the international community to intervene in the future. Those indicted by the tribunal are prohibited from running for or holding public office, and a conditionality clause bars any community not cooperating with the tribunal from receiving economic aid. All members of the international force are prohibited from contact with those who have been indicted and are obliged to arrest and hand over to the tribunal any they encounter. Congressional legislation prohibits American economic assistance to any community that does not cooperate with the tribunal (which is interpreted to mean the entire Serb Republic as long as Bosnian Serb leaders Radovan Karadzic and General Ratko Mladic are not at The Hague) and to projects that do not promote multiethnic cooperation.

The other element of the just peace strategy is a political process aimed at removing radical

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²American diplomats attribute the October 1995 cease-fire and the Dayton agreement to the success of this approach: creating a military balance between the Serbs and the federation by encouraging joint operations between the Bosnian government army and the Croat Defense Council and looking the other way at arms deliveries to the federation; nurturing military cooperation between Bosnia and a Croatia that had received outside assistance in equipping and training its army; and using NATO to bomb Bosnian Serb military targets.

³By basing the ratios on population, and not on economic capacity, the burden of defense expenditures may become a serious limit on growth; reductions in military manpower are not mentioned, which suggests an additional reason for concern about economic burden; and the wisdom of adding offensive combat equipment that none of the three parties currently holds is questionable.

nationalists and freeing the vast majority of innocent civilians to reconnect and reconcile. In the American version of this strategy, the removal from any influence and power of Karadzic and Mladic through their arrest would enable more moderate leaders to win in elections and lead the Bosnian Serbs on a path toward reintegration. The September elections were thus to be an essential step in completing the defeat of Karadzic's party, a defeat that had begun with the Croatian military offensives and NATO bombing campaign of the summer of 1995, and Milosevic's concessions on territory made at Dayton.

The Bosnian government version, presented at Dayton by then-Foreign Minister Mohamed Sacirbey, is to counteract the concessions it made to obtain American military support for Bosnian sovereignty—accepting the right of Bosnian Serbs to self-governance within their 49 percent of Bosnian territory (the Serb Republic) and relinquishing military plans for further territorial acquisitions—with a political strategy to regain control over the entire territory of Bosnia and Herzegovina. This would begin with the immediate “liberation” of Sarajevo and continue with the right of all Bosnian citizens to return to their prewar homes and vote in their localities of residence in 1991.⁴ Thus, while international actors remove radical Serb nationalists from above, the right of all displaced persons and refugees to vote in their home locality of 1991 and the international commitment to monitor human rights and supervise elections would initiate a process from below that ensnares Serb politicians in a maze of human rights obligations and changes the social composition in favor of voters who will be loyal to Sarajevo. In the long run, majoritarian principles would win out in both the federation and the Serb Republic.

ECONOMIC REVIVAL

National elections had an additional purpose for the international force: to enable IFOR to exit Bosnia. Elections would create a government (the “common institutions” of the two entities) able to provide civilian security and restore normal life before the staged withdrawal began, and the military balance created by a trained and equipped federation

army would deter a new war. Essential to this process of normalization, however, is a fourth element of peacebuilding: the strategy Americans liken to the Marshall Plan.

There is a widespread recognition in the United States government and among Europeans that a devastated economy, destroyed infrastructure, and demobilized soldiers without a chance of employment provide miserable prospects for peace. Economic revival following close on the heels of a cease-fire can reincorporate demobilized soldiers into society, wean leaders from war by enriching them through commercial rather than war profits, and bring people from all sides of the war back into contact through markets and trade. The cease-fire becomes anchored in society and political solutions can emerge. In the language of peacekeeping strategy, which it complements, the revival of economic activity is a confidence-building measure and the essential follow-on to end a war definitively.

DAYTON'S ACHILLES' HEEL

The Dayton agreement stopped the war before any of the three warring parties had achieved their political goals. It recognized the nationalist goals of all three governing parties, legitimized the ethnic principle of rule, and completed the aim of the war—to change the geographical distribution of the population to make national control over territory irreversible—with the transfer of the one remaining exception, the Serb-held suburbs of Sarajevo, to federation control in February 1996. By expecting these political party leaders with nationalist goals to act with the accountability of governments in implementing their agreement, the international community appears to support their ambitions to create separate party-states in which each dominates and none becomes a minority. But the accord does not affirm the irreducible element for each of the three parties—external recognition of their national right to self-governance—nor does it choose among their conflicting political views of a Bosnian state. The Dayton accord is not a political settlement.

For some, Dayton is “the last will and testament of Bosnia,” providing a cover for its effective partition, while for others it initiates a workable process to reintegrate Bosnia. American officials honestly represented their diplomatic objectives as a compromise between the realistic and moralistic goals of the Clinton administration. To stop the war they would accept that Bosnia had been effectively partitioned and make no guarantees of a political turnaround, but they would do as much as possible

⁴Bosnian Prime Minister Hasan Muratovic first referred to the Serb exodus as “liberation.” The term “liberation” has come to be applied by Bosniac politicians, including President Izetbegovic and former Prime Minister Haris Silajdzic, to the entire territory of the former republic; for example, it was the theme of Izetbegovic's first public appearance since Dayton, at an election rally in Gorazde on May 4, 1996.

during one year to assist the Bosnian government leadership of Alija Izetbegovic and the multiethnic goal. What the Bosnian government made of this assistance would be up to it.

The political dilemma of integration or partition tends to focus attention on recalcitrant Serbs, but it is relations within the Bosniac-Croat federation that pose the greatest threat to the Dayton accord and the peace operation. The political positions of the federation's two parties have grown further apart now that the strategic shifts favoring Croats and the cessation of hostilities with Serbs shift the two parties' objectives from territorial to economic and political goals. The Bosnian Croat HDZ, which faces no political opposition in the territory it controls, has no intention of abandoning what it considers to be its national rights to territorial sovereignty and economic assets within or moving through that territory. It views unification with Bosnian Muslims to be a threat to those rights, the federation commitment to unity a facade that can drop with the end of hostilities, and the political independence of the ministate the Croats have created called the Croat Republic of Herzeg-Bosna within the Bosnian union to be legitimated by the recognition of a Serb Republic of Bosnia-Herzegovina.

But the Bosniac SDA also claims national rights to sovereignty and territory—for the Muslim nation—and has no intention of abandoning its internationally recognized position as the legitimate government over the entire territory in Bosnia's recognized borders. It has worked hard to overcome its strategic and economic dependence on the Croats by monopolizing as much international military and economic aid as possible; it has also insisted on the right of Muslims to return home to escape its current confinement to less than 25 percent of Bosnian territory. Croat demands for national parity in federal offices and for divided ("separate but equal") municipalities have been countered by an insistence on majoritarian rule. Unfortunately, each party can find justification for its own position in the constitution that was a part of the Dayton accord.

In essence, the three Bosnian parties do not feel the political compromise engineered at Dayton to be their agreement. They will cooperate with representatives of the international community insofar as it suits their party and national interests, but they are not committed to making it work beyond that. Their method is to fasten onto particular rights granted in the accord that suit their long-term political goals and challenge outsiders to make a clearer

commitment and recognition of those particular rights and against another party or interpretation.

The ambiguity of the agreement is increased by the contradictions among its peace strategies: between the essential impartiality of the military forces and the political support for the Izetbegovic government; between the federation and the Serb Republic; between the trade and cooperation essential to the survival of all three communities and the programs for military balance that encourage parties to maintain troop deployments and raise police checkpoints around points of dispute or vulnerability on internal frontiers; between the slow timeline of peacekeeping and the security necessary for refugee return and reconciliation, and the quick timeline of deadlines and the political process designed to allow an early troop exit. The burden of these contradictions fell on IFOR commanders during 1996, and they reacted by raising the specter of "mission creep" to resist pressures to perform any task that could be seen to compromise their impartiality.

The Dayton answer to the political dilemma about whether the accord partitions or unifies Bosnia is contained in a constitutional balancing act that combines a single country with substantial devolution of power and jurisdictions. The Dayton constitution's construction of a Bosnian state actually resembles the European Union, with a common market (based on a customs union with exchangeable but separate currencies); a parliament representing the three nations (in two entities); a shared, large-scale infrastructure; and a bureaucracy to staff these foreign and economic functions that is financed by equal (not proportional) contributions from the three communities.

The primary jurisdiction of the common (state) government is foreign policy, not relations that tie politicians to domestic issues and constituents. It thus risks having the same "democracy deficit" as the European Union and similar obstacles to political integration from jealously guarded national sovereignties. No powers or functions of this common government exist to inspire loyalty or identity among all Bosnian citizens (with the possible exception of the Commission on Human Rights). The accord creates few rewards for power, status, or wealth in the center and in common institutions that would nurture centripetal over centrifugal forces or instill a sense of protection for people who wish to choose nonethnic identities (against pressures from their own group to conform). Even the responsibility for defense has been handed to the two entities.

It is clear that radical decentralization does not resolve the dilemma. All aspects of the implementation process in the first year (as they will be in 1997 as well) were dominated by the electoral motives of the three political parties and their view of elections as the current alternative to war, securing further or expanding their control of territory. Negotiations over foreign aid and technical assistance have dragged on while the parties fight over who has authority to sign public contracts, who gains which government portfolios (and the jurisdiction, the patronage, and the funds they bring), and whether they will form a central bank and common customs regime.

The bureaucratic rules of the EU, the IMF, and the World Bank—the leaders in economic reconstruction—require them to work with counterparts who can guarantee that they will eventually repay the loans. There cannot be aid without a country program, and there cannot be a country program without a country. If each of the three parties to the Dayton agreement has authority only over a part of Bosnian territory, who is that counterpart? Even more complex are the obstacles to resettlement and to economic revival that have arisen where ownership rights to housing or firms have been divided by new borders between municipalities or entities.

The case of Mostar is particularly instructive of the difficulties facing the Dayton implementation. Beginning in July 1994, the European Union Administration in Mostar (EUAM) fielded a civilian administration in the city that would replace the United Nations peacekeepers with a massive infusion of financial and administrative assistance and a multinational police force. The strategy of the EUAM was to use economic incentives and reconstruction to bring Croats and Muslims together again. Much has been accomplished: water, electricity, public transport, and fire brigades have been restored, all schools repaired and opened, the medical system revived, new apartments built to entice refugees to return, and some bridges rebuilt. But the city remains as divided as ever, violence erupts frequently, expulsions continue, and the EUAM was unable to push the parties to cooperate or fulfill their commitments.

BOSNIA'S ITALIAN FUTURE?

As SFOR begins its 18-month deployment, the World Bank reorients its program toward sustainability through macroeconomic structural reform, and the Office of the High Representative tries to use its enhanced authority for greater compliance to the Dayton accord through assertive conditionality, the prospects for Bosnia are murky. The reality of the

country's separation into three ethnically homogeneous parastates is countered by the enthusiasm of the international operators that the Dayton accord "will work." It is too soon to predict a favorable outcome along the lines of the accord or whether there will be a progressive reconstitution of a Bosnian state in a civic direction, beginning with greater success for non-nationalist parties in the 1998 elections.

The primary tasks in 1997 are to get the common institutions working, hold the postponed municipal elections, and repatriate refugees being expelled from northern Europe. But the process of elections and the right of return will, as in 1996, continue to exacerbate the political contest of wills between the three parties, each obstructing the return of displaced persons and refugees of other groups who would dilute their electoral base and are perceived as threats to territorial sovereignty and national control.

If the economic situation remains bleak and stagnation sets in, refugees will not return and the remaining moderates, professionals, and members of the skilled younger generation will leave. High unemployment will reinforce ethnic partition, prevent return, and delay resettlement through real or imagined job discrimination. If the masses of unemployed, aimless young men now roaming city streets—many still armed—do not find employment, conditions will grow for violent incidents that could spark escalation, criminal gangs and mafia-like rackets, drug and arms smugglers, and extremist organizations and militia. Western concerns about Iranian ambitions, or a West Bank/Gaza hothouse, could be self-fulfilling in the social conditions of cities overwhelmed by displaced peasants and an urban underclass.

The most likely compromise between the current reality in Bosnia and the goal of Dayton is an extremely weak, fragile, and relatively unstable country—a country in name and international recognition only without a central capacity to manage trade and finance, one that might continue to demand external assistance and protection for a long time. There is a more worrisome scenario. There could be a repetition of the Italian experience with post-World War II reconstruction that transformed local crime families into an international criminal network based on control of construction activities and transport-related operations, foreign assistance channeled through public corporations and a dominant political party, state corruption, rapid "privatization" for those with ready cash, and continuing insecurity that favors protection rackets. This is not the usual view of the Marshall Plan, but it cannot be ignored. ■

"Legislative elections must take place by 1998 and, based on current trends, [President Jacques] Chirac could lose his majority in parliament. . . In the wings are politicians who have made distinctly anti-Maastricht and anti-EMU noises. Will Chirac try out 'another politics' to save his majority? Is there another politics?"

Chirac and France: Prisoners of the Past?

GEORGE ROSS

President Jacques Chirac's long body and tobacco-tuned voice are familiar, yet he has always been a puzzling man. Likable, with huge reserves of energy, Chirac enjoys chatting, eating, and drinking with ordinary people and is also a connoisseur of Asian art. As mayor of Paris from 1978 to 1995, he helped his city become the renewed jewel it is today. Yet he has never seemed to know his own political mind. His opponents would be less delicate, contending that he has never been sure of his principles.

As a young man in the early 1950s, Chirac was on the left. Then he moved right to become a protégé of President Georges Pompidou. Still later he became leader of the neo-Gaullist Rally for the Republic, and donned President Charles de Gaulle's statist regalia. He changed into a Reaganite costume for his first run for president in 1981. As prime minister under President François Mitterrand from 1986 to 1988, he was a privatizer and deregulator. But when he ran for the presidency for the third time in 1995, he campaigned as all things to all people. He pledged to cut taxes, spending, and the deficit, to get the French economy growing again, and to bring unemployment down and create new jobs. He also denounced the monetarism, austerity, and muddling through of Mitterrand's last years.

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¹Whichever Chirac the 1995 vintage was, he was elected president on May 7 against Lionel Jospin, a Socialist, with 52.6 percent of the vote.

And in the midst of an effusion of punditry about Gaullism's "social democratic" side, he pursued a populist hunt for disgruntled socialist and communist voters, denouncing the "fracturing" of French social life. He was studiously vague, however, about France's commitment to European integration.

When questioned about the clashing ingredients in this soup, candidate Chirac most often responded that political will could overcome all obstacles. But the question in 1995 was the same as it had always been: Which Chirac was the real one?¹ Two years later, that question remains unanswered.

THE MITTERRAND LEGACY

The legacy of François Mitterrand's 14-year presidency fell heavily on his successor, especially in economic policy matters. After his election in 1981, Mitterrand briefly tried to build "social democracy in one country" through planning, extensive nationalizations, reforms to strengthen labor in the workplace, and mild demand stimulation. This package quickly brought painful consequences. By 1983, Mitterrand, faced with a choice between pulling back from the Exchange-Rate Mechanism of the European Monetary System to continue the left's experiment or hewing to Europe, chose Europe.

When the dust from this had settled, it was evident that Mitterrand was proposing a new "grand strategy" of European integration as a substitute for abandoned leftism. Changes in French economic policy toward austerity brought new convergence among the larger member states of the European Union (EU) that made possible the move toward the "1992" program to complete the Single European Market. Mitterrand thought that France stood a

good chance of being able to shape new European integration to its own advantage. The Germans could not dominate, given their history. The Thatcherite British liked 1992 because it was deregulatory, but otherwise were profoundly anti-European. The French had ideas, a strong military position, and a skilled administrative elite. With luck and shrewdness, 1992 would create an upward spiral of new European integration with France in the lead.

Mitterrand hoped for large domestic payoffs from this. A French-led crusade for European integration could restore French "grandeur." Nationalist pride, plus the possibility that the single market program might stimulate economic growth and job creation, could consolidate a new, more "modern" coalition around the left. The "Europe option" also had hidden domestic dimensions. France's companies, labor unions, and technocratic leadership caste needed to be shocked out of old statist and corporatist reflexes. Pooling new sovereignty at the EU level allowed Mitterrand to claim "Europe made us do it" when unleashing painful reforms. He could further argue that since salvation for France lay in new European integration, France's interests were ultimately Europe's.

In fact, returns to France from renewed European integration have been much less than hoped. After a brief boomlet in the later 1980s, growth slowed, unemployment rose, young people could not find work (and those who worked tended to hold temporary jobs), income and wealth inequalities increased, social services came under increasing pressure, public sector workers suffered from a tough incomes policy, and wages stagnated.

The "Europe option" was responsible for much of this dismal record. Insisting that the franc should become as solid as the German mark cost jobs and discouraged investment. Behind the strong franc commitment lay movement toward Economic and Monetary Union (EMU), vigorously promoted by Mitterrand and agreed to by EU leaders at Maastricht in 1991.

The French had long advocated monetary union with a single currency and a Euro-level "economic government" to set broader economic goals. At Maastricht, however, the Germans were not eager to consent to the large sacrifices that these proposals implied (losing the mark, relinquishing control over European monetary policy) without eviscerating the "economic government" aspect, thus leaving central bankers, especially German ones, at center stage. The Germans also insisted on stringent

"convergence criteria" for preparing EMU—very low inflation, interest rates, budget deficits, and debts, plus currency stability. EMU thus would be committed primarily to strict price stability. The French, however, ended up caught in their own maneuvering. EMU, in French minds, was designed to wrest some monetary control away from the Bundesbank to allow Europe as a whole, and France in particular, to pursue more expansionary policies. Instead, EMU became a new device for the Germans to make everyone else follow their deflationary lead.

CHIRAC INAUGURATED BY THE STREETS OF PARIS

France was unhappy with the economic situation in 1995 and tended to blame European integration for its difficulties. This, plus the clear responsibility of the Socialists for the economic problems, dictated Chirac's populist promises about reflation, growth, and job creation, along with careful handling of European integration and EMU.

Getting elected was easier than governing. The legacy of Mitterrand's "Europe option" was an albatross. The Maastricht EMU convergence criteria stretched out in front of Chirac well through the first half of his term. France's budget deficit was considerably out of line. A significant part of this deficit problem came from annual red ink in various social security accounts. Chirac had fudged these issues during the campaign, announcing repeatedly that "politics is not the art of the possible; it is the art of making possible what is necessary." But in power his choices were more difficult. Continuity dictated moving toward EMU, which France's technocratic elite wanted. Making France's economic life less arduous was what the people wanted, however. Continuing austerity and unemployment would be no more popular than welfare state cuts, although both seemed necessary for EMU. If Chirac slipped on these matters there were other, much less delicate "national populists" like Jean-Marie Le Pen of the National Front waiting to capitalize.

Chirac's first months in 1995 were marked more by a buccaneering style in foreign policy than by biting economic policy bullets. Resuming nuclear testing in the South Pacific in time for the fiftieth anniversary of Hiroshima was an exemplary touch, even though it was tied to the modernization of French defense operations. Chirac then startled the usually staid Group of Seven meetings in Halifax, Canada with his direct, even indiscreet, way of speaking. And he concluded what had been a dismal French presidency of the EU Council of Minis-

ters at the Cannes summit in June with loud complaints against Italian monetary policy. He also busied himself, rather more productively, promoting enhanced Western action on Bosnia (which, to Chirac's chagrin, United States President Bill Clinton cashed in on at Dayton). This frenzy of action was vintage Chirac, trying to establish himself as a worthy successor to de Gaulle.

While the new president paced world stages, he confided domestic policy to Prime Minister Alain Juppé. Juppé was a model French technocrat. Well-trained and highly skilled in the administrative arts, Juppé was heralded as a good choice. Juppé's real assignment, like that of all first prime ministers in a French presidential term, was to promote difficult policies and act as a lightning rod to protect Chirac—a lightning rod that could be removed when it came time to prepare for the 1998 legislative elections. Thus it was surprising that Juppé, amid multiple declarations about "reform," a "general mobilization against unemployment," and a "new Republican pact" to liberate France's "forces vives" made few extraordinary moves. Subsidized programs to soak up youth unemployment, new efforts to seduce employers to hire more workers, raising the minimum wage, and promises of tax cuts were all déjà vu, at best gentle attempts to prod economic recovery by pumping up consumption.

What was going on? First, Chirac could not turn to harsh new austerity measures immediately because he had run promising the opposite. He and his prime minister may also have believed that they could muddle through without major new cuts. The Germans would call the shots as EMU approached, and it was conceivable, given their eagerness for European integration, that they might soften the Maastricht criteria to make things easier for the French. Any such thoughts were dashed completely after Chirac met Chancellor Helmut Kohl at Baden-Baden at the end of October 1995. Kohl was firm: France was not to sabotage movement to EMU through policy laxness. Chirac was thus put on warning about EMU; some kind of policy shift for the Chirac administration was inevitable, because the easygoing economics of its first months jeopardized EMU.

The Juppé government's first strong reform proposal focused on the social security deficits. The Juppé plan was a complex document. Introduced in mid-November 1995, the plan proposed cost-

controlling changes in health care, taxing family allowances, and obliging everyone, including civil servants, to contribute a full 40 years to their pensions before retiring. There would also be a broadening of the "generalized social contribution," a special tax to pay for social programs introduced by the Socialists in 1991. The final item was a 0.5 percent supplement to the income tax for 13 years to pay off accumulated social security indebtedness (estimated at \$60 billion). The Juppé plan was thus not "Thatcherite" at all. Rather than cutting programs substantially, it raised taxes to make streamlined existing programs solvent. Even if it was not Thatcherite, the plan contained plenty to anger different groups. A politically skilled government would have been able to cope with this but, as it turned out, Alain Juppé's technical skills were not accompanied by political savvy.

Juppé suffered from a classic technocratic blindness. He believed that he was wise enough to judge what was best for the French people. He further believed that the people should then see reason and have the good grace to accept this judgment. Juppé was insufficiently attuned to the deteriorating situation of French workers. Austerity, unemployment, political alienation, and the strong franc policy had produced frustration. Given this, the prime minister made about as many mistakes as he could, threatening vested interests on several fronts at once and uniting groups that otherwise had differing interests.

French labor unions are often inept, and always divided, but with the prime minister's help in creating a coalition of different groups of angry workers and bringing usually feuding union organizations together, they were able to lead the largest strikes in recent French history against the Juppé plan. The fact that most of the strikers took to the streets to protect their own special privileges—retirement at the age of 50 for railroad engineers, for example, or early retirement and lower pension contributions for civil servants, deterred no one. It took nearly five weeks, until nearly Christmas, to get things back in order.

The strike was a shock for the Chirac presidency. In the words of the December 9, 1995, *Economist*, "strikers by the millions, riots in the street; the événements in France. . . make the country look like a banana republic in which an isolated government is battling to impose IMF austerity on a hostile pop-

Chirac's first months in 1995 were marked more by a buccaneering style in foreign policy than by biting economic policy bullets.

ulation.” The prime minister, dividing and ruling by granting separate concessions to particular groups—doing what he should have done before he started the trouble—managed to separate the railroad workers from the civil servants, then some civil servants from others, to restore order. He also managed to preserve space to continue most of his plan. But the cost in terms of lost production and budget shortfalls in social security savings was large. The Juppé plan had projected a reduction in the social security deficit from \$13 billion to \$3.2 billion in 1996 and eliminating the deficit altogether for 1997. In fact, the 1996 deficit will be about \$10 billion.

Perhaps more important, the price tag of the prime minister’s clumsiness meant that France made much less progress toward meeting the EMU convergence criteria than it should have. The clock was ticking toward the moment when future members of EMU would be decided: the Madrid EU summit in December 1995 decided that monetary union would begin in 1999 and that membership would be decided in 1998 on the basis of 1997 results. The Chirac administration had probably made the situation worse in its first few months than it had been under Mitterrand.

JACQUES AND ALAIN IN THE TRENCHES

By early 1996 it was obvious that Chirac’s pledge “to create 700,000 new jobs by the end of 1996” had been a vote-hunting fantasy. In fact, new jobs were being created at an even slower rate than they had earlier. Moreover, unemployment, which had declined a bit with recovery from the 1993 recession, had begun to rise again. Finally, economic growth had turned out much slower than projected, partly because of the strikes. Both president and prime minister paid dearly for the strikes. Chirac’s and Juppé’s opinion poll ratings dropped precipitously (by the end of 1996, Juppé was the most unpopular prime minister in French polling history). The first few months of the new administration had clarified at least one thing, however. Jacques Chirac, whose “Europeanism” had been in doubt, would take the steps needed to bring France toward EMU.

From the EMU point of view, the first months of the Chirac-Juppé stewardship had been negative. Much work remained to be done. The budget deficit had to be cut from 5 percent of GDP in 1995 to 3 percent by the end of 1997, requiring draconian budget cutting and making growth and job creation impossible. While Chirac and Juppé could

have raised taxes, they had already done so on social security and, moreover, the president had pledged to cut taxes. There were precious few other ways to save money without cutting back on public services and employment. Long-term debt also had to be reduced, with similar implications. All this had to be undertaken in a setting where the Chirac-Juppé tandem had lost public support and in which labor relations were a ticking bomb. That real terrorist bombs had begun to go off in the streets, the products of Corsican and North African groups, raised the level of tension even higher.

The “hot autumn” of 1996 that many predicted did not occur, and the 1997 budget that appeared in September 1996 was a stern affair whose main goal was to bring down the public sector deficit to Maastricht’s 3 percent target. It froze public spending at 1995 levels (amounting to an actual 1 percent cut that would cost many public sector jobs). Skilled accounting also found money hidden in the social security system, despite the failure of the 1995 reform. The government’s most creative book-keeping, however, involved a one-time \$8 billion charge off (lowering the deficit by 0.5 percent by itself) from the state takeover of some of France Télécom’s pension funds, connected with the utility’s imminent privatization. Juppé also pledged to continue social security reform and announced that certain benefits would henceforth be taxable. The final item was a promise to lower national taxes in 1997, although this was really a decentralization of taxation to lower jurisdictions. In general, the budget made it clear that if there was a creative “third way” or “other politics” between a retreat from European commitments and EMU as a forced march toward lower growth and higher unemployment, the Chirac presidency did not know what it was.

The administration also had other economic policy difficulties. It had been agreed since 1986 that much of France’s immense public sector would be privatized. This was not only because of the privatization fad that swept the world in the 1980s, but also because highly centralized coordination looked like an ever larger liability with globalization. French privatization, however, has always been handicapped by the ambivalence of French elites about genuine market liberalism. France has had statist, centralizing perspectives on economic life—along with almost everything else—since Louis XIV mobilized luxury goods producers to compete with English capitalism. The French have done what comes most easily to them, learning to “talk the talk” but not to “walk the walk” of contemporary

neoliberalism, and their privatizations have often been financial operations in which political elites have made completely sure that new managers in privatized firms were "sure," that is, members of the technocratic caste in good standing. Privatization continues to be fraught with complexity because of this.

DOWNSIZING DEFENSE

Privatization was connected with another difficult dimension of Chirac's brief: reconfiguring French security policy. The end of the cold war left France with a bloated defense budget and arms sector and defense strategies inappropriate to the new setting. The arms industries had to be shrunk. Arms exports were declining, the Americans were becoming even more competitive, and French defense budgets were to be cut. It made sense to have a European perspective on such matters, but the rest of Europe could not be counted on to cooperate on French terms. French arsenals had to be downsized quickly and large nationalized defense contractors had to be privatized.

Reforming the defense industry was tied to more general defense reforms. Here Chirac proceeded with skill, announcing extensive changes in French security policy on February 22, 1996. France, following General de Gaulle's lead, had spent vast amounts building its independent nuclear deterrent, at the cost of neglecting conventional forces beyond those needed to keep order in France's former colonies in Africa. Chirac did not propose to change this basic policy. The *force de frappe* would continue to exist, but weapons programs and strategic plans that made little post-cold war sense would be abandoned. In a context of decreasing spending in general, resources would be shifted to an ability to project significant numbers of well-trained, equipped and supported troops abroad. Because this change in focus implied a smaller, professionalized volunteer military, the president also proposed ending France's long tradition of conscription.

Chirac's most important proposals involved moving toward full participation in NATO. These ideas were not greeted with howls of betrayal from Gaullists, however, because Chirac intended to redesign, rather than abandon, the Gaullist quest for defense autonomy. Mitterrand had begun the shift, hoping to use the West European Union

(WEU) to create a degree of new defense autonomy from the United States after the cold war. The Maastricht negotiations and the years following them had demonstrated clearly that the Americans were not eager to cooperate. Chirac thus shifted focus from the WEU to building a genuine, relatively autonomous (and French-led, if possible) European pillar in NATO; to this end he proposed the reintegration of French forces into NATO's command structures. In exchange Chirac demanded that NATO's southern command be given to a European. The Clinton administration was skeptical and Chirac was stymied at the end of 1996. Recent discussions with Germany regarding the development of a "Europeanized" nuclear force indicate, however, that his determination is strong.

THE RELUCTANT EUROPEAN?

The overarching priority for the first months of the Chirac presidency remained EMU. Chirac had never been an enthusiastic European and his conversion to EMU was a pleasant surprise for other EU member states, especially Germany. It also happened in the nick of time, because energetic preparations had to be made for France to meet the Maastricht criteria. The diplomatic side of these preparations involved a different kind of game from the domestic one. Only close Franco-German collaboration would make EMU possible, and there were disagreements

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between the two countries on the issues. The first of these involved relationships between those eligible for EMU membership in 1999 and those who would not be. The Germans favored a "hard core" EMU that would marginalize the outs somewhat. The French wanted to constrain the outs onto a path toward eventual membership, and sooner rather than later. The issue was settled in a preliminary fashion at Verona in April 1996 and Florence in June 1996 by a decision in favor of an essentially French proposal for a new Exchange Rate Mechanism to link the ins and outs. The outs would be granted a reasonable exchange rate margin for fluctuation around the new currency, the euro, to deter speculation, but they would have to come closer to the euro's value as they approached membership.

The December 1996 Dublin European Council took up the next problem, which was finding arrangements to keep the outs from exploiting EMU by running large deficits and other free-riding tactics. But because Italy and Spain now appeared to

be among EMU's early members, negotiating emphasis shifted toward the arrangements for moving to EMU itself. The French had always wanted an "economic government" to gain influence over German monetary policy. The Germans, in contrast, wanted to lock EMU members into an economic policy that reflected German monetary policy goals, a stance that partly reflected worries about the credibility of the new euro between 1999 and the finalization of EMU in 2002.

German resolve was strengthened by the prospect of Italian and Spanish EMU membership, which might well tarnish EMU credibility. Equally important was mistrust for the French themselves. Kohl had much less confidence in Chirac than in Mitterrand. At the same time, there were strong preferences among Chirac's own followers for an "other politics" that would grant France greater policy space. Chirac's presidential campaign had played to this and there was support for it across the French political spectrum.

The Germans had other ideas. Theo Waigel, the finance minister, proposed a new "stability pact" whose central feature was automatic financial sanctions on any EMU member failing to keep budget deficits below 3 percent of GDP. The pact would have emergency provisions for recessions and shocks, but its logic was something akin to a "balanced budget amendment." What Waigel and Kohl wanted, in effect, were new rules and regulations that would continue the stiff pre-EMU convergence criteria well into the life of EMU itself.

The French, speaking for almost everyone else (except the Dutch), strongly opposed this and asked that judgments be made on a case-by-case basis. Kohl and Chirac discussed the issues twice prior to the Dublin summit and failed to agree. It took tough negotiations at Dublin to get a deal. The obstinacy of both sides—which made one insider feel "lost somewhere between the Elysée and the Black Forest"—was driven by the mutual skepticism of French and German public opinion about EMU. The deal reached was not as hard-nosed as the Germans had wanted, but was much more demanding than anyone else desired; EMU members could get off the hook of sanctions if their GDP began to shrink seriously because of recession (a relatively rare event).

Jacques Chirac, either reluctant or recent European (no one knows for sure), won a few concessions from the Germans, but lost what really counted. The French, long enthusiastic Europeans but more reticent in recent years (polls today give

slightly more than 50 percent support for EMU), found themselves bound to a future where their freedom would be extremely limited. Monetary union seemed likely to happen, therefore, after a long period of uncertainty, and Chirac was responsible in important ways for this. But it would enjoin rigid price stability and budgetary rectitude. For France there was no escape, barring some miracle, from continued high unemployment, low growth, and slow but sure erosion of the welfare state. The French electorate was entitled to wonder what had happened since the spring of 1995 when they had elected a president pledged to promote exactly the contrary.

THE GHOSTS IN THE CLOSET

The scene after François Mitterrand's death in January 1996 dripped with symbolism. The first Socialist president of the Fifth Republic had dominated French life for 14 years. What was most striking about these January days was how much Mitterrand had been able to control his funeral from the tomb. Mitterrand as president had been opaque, manipulative, and not always successful, and in his last years he had been surrounded by scandal. Yet the funeral arrangements were an architecture Mitterrand had designed to show himself as the devoted son of an eternal rural France, with one set of funeral operations in Jarnac, the town where his family had resided. He also managed to capture his original Catholicism by staging another, quite royal, event in Paris's Notre Dame, replete with cardinals presiding and the angelic singing of Barbara Hendricks. For days French television devoted itself to extolling Mitterrand's wisdom, statesmanship, and patriotism. All this was an achievement for a consummate Parisian, a cynical and secularized man of the left and a notorious womanizer (incredibly, Mitterrand also managed to have his longtime mistress and illegitimate child included in the pomp and circumstance). Mitterrand had no desire to leave to others the task of making his place in history.

From Jacques Chirac's point of view, this symbolism must have been profoundly disagreeable, not only because there had never been any love lost between Chirac and his predecessor, but also because it transcended Mitterrand's funeral. Mitterrand had also staged the priorities of his successor. Mitterrand's "Europe option," the grand strategy for renewed European integration set out in the mid-1980s, had, by 1995, structured President Chirac's world. Whatever Chirac really desired to do after

his election—and it has never been easy to know what Jacques Chirac has desired to do—he was obligated to carry out an agenda that programmed France's basic options beyond the millennium, indeed through the end of Chirac's seven-year term.

By the time Chirac finally won the presidency on his third attempt, the choices were stark. EMU had to be pursued or rejected. Rejecting EMU risked blocking new European integration, perhaps for decades during which Europe might well be passed over by history. In addition, the Franco-German "couple," the bedrock of European order during the second half of the twentieth century, would face divorce. Accepting EMU was the more likely choice. But since Maastricht the processes leading to EMU had slipped away from French control. EMU, rather than a set of instruments to "co-manage" European economic policy with the Germans, subordinated others, including the French, to German policy desires.

The Maastricht convergence criteria, to which Mitterrand had agreed for the years up to 1999, and the "stability pact" that Chirac agreed to for the years after 1999, were a corset of longer-term economic constraints, limiting France's ability to promote growth and employment and obliging it to trim social programs. Even if Chirac had desired to reject Maastricht, the costs of this course to his new administration were too great to contemplate. The new president thus fell into line, as Mitterrand had known he would. When Chirac had served as Mitterrand's prime minister in the first experience of left-right "cohabitation" in Fifth Republic history, Mitterrand had manipulated him, outmaneuvered him, and ultimately humiliated him electorally in 1988. In 1995 Mitterrand had once again outmaneuvered him, this time with even greater consequences.

To be sure, there were other matters for Chirac to take care of, in his own fashion. He could, and undoubtedly will, continue to privatize, and this may turn out to be important. Privatization is not the same from country to country, and when a statist and dirigiste culture privatizes it is unlikely to mean, at least in the first instance, "liberalization." Thus far privatization in France has largely meant transferring public assets to the private sec-

tor to be controlled by the same caste of technocratic managers. Turning French companies into globally predatory lean and mean multinationals without regard for their national homes is unlikely to happen without a genuine "cultural revolution," something the French have avoided so far, perhaps for good reasons. Similar thoughts would apply to deregulation as well. What would France be without statism, either formal or informal? And who is to say today whether or not reconfigured statism will be a viable solution?

Chirac can also try to strut on the international stage, Gaullist style. He has already begun, sometimes in quite interesting ways. His efforts in Bosnia, in the Middle East, and in the redefinition of NATO have been flashy, but have not led to much. Bosnia and the Middle East have proved beyond his capacities to shape, while playing tough with the United States on NATO has run up against Americans resolved to maintain their hegemony. The profound reform of French security policies that he is undertaking may give his country new capacities. Then again, it may turn out to be an acknowledgment of France's inability to be a frontline player in the world. In a post-cold war world there seems even less room to be a Gaullist in foreign affairs than there was during the good old days of the general himself.

Legislative elections must take place by 1998 and, based on current trends, Chirac could lose his majority in parliament. Jacques Chirac is a changeable character, as has been noted. There are no obvious rabbits to pull out of hats to make the French less morose or anxious in the near future. Firing Juppé will solve few problems. The French will want credible promises that things will change for the better. In the wings are politicians who have made distinctly anti-Maastricht and anti-EMU noises. Will Chirac try out "another politics" to save his majority? Is there another politics? Ultimately, his situation is not that different from those of other European leaders. EMU is unlikely to generate popular support. European integration, to ordinary Europeans, appears to be a machine for austerity and high unemployment that EMU may extend well into the next millennium. The deep political issues involved in this will not go away. ■

"[Prime Minister Romano] Prodi must overcome the distrust of the state that has plagued Italy ever since Cavour and Garibaldi. . . unified the country little more than a century ago. This year may be decisive, the one in which the process of reform either succeeds or fails."

Italy at a Turning Point

PATRICK MCCARTHY

As 1996 drew to a close, two views of Italy's political landscape suggested themselves. The optimistic view focused on a center-left government composed of competent men like Prime Minister Romano Prodi, who is a distinguished economist, and Treasury Minister Carlo Azeglio Ciampi, former president of the Bank of Italy, pushing through a budget that would cut the deficit to approximately 3 percent of GDP. This enabled Italy to rejoin the European Monetary System (EMS) and strengthened its chances of joining the group of European Union countries poised to fuse their currencies in a monetary union to be established in 1998. In the April 1996 elections, the government had won a majority of seats in the Senate, although in the Chamber of Deputies it was dependent on the votes of the far-left Communist Refoundation Party (RC). The process of change, which began in 1992 with the "Clean Hands" investigation into the organized corruption that had become a method of government, seemed to be moving forward.

This was the optimistic view, but there are not many optimists in Italy, and the pessimists have equally strong arguments. The core of the governing coalition is made up of Prodi's small Catholic party, the Italian People's Party, and the formerly Communist Democratic Party of the Left (PDS), which is Italy's largest party with 21 percent of the April 1996 vote. There are no doubts about the PDS's transformation into a reformist party, which is led efficiently by Massimo D'Alema. However, the Catholic Church is not enchanted by the alliance, and the two parties have different views on social

issues like abortion. The fragility of the coalition is increased by its small right-wing component, Italian Renewal (RI), led by former Prime Minister Lamberto Dini, which abhors the dependence on the RC. Born of the group that decided to remain Communist when the PDS was formed in 1991, the Refoundation Party is not a group of nostalgic Stalinists. Nevertheless, it is a party of protest that resists public spending cuts and the privatization of Italy's still bloated public sector.

In short, Italy is still ruled by a weak coalition and the 1993 change in the electoral system, whereby three-quarters of the parliamentary seats were awarded by the British, winner-take-all method of voting, did not create a stable government. The pessimists could add that the uncovering in 1996 of a vast network of corruption rooted in the state-run railway system proved that the Clean Hands investigation had not achieved its goal. The opposition leader, Silvio Berlusconi of Forza Italia (Go Italy), faces several charges of tax fraud and bribery. In the meantime, on the very day when he was celebrating Italy's return to the EMS on November 25, Prodi discovered that the Rome magistrates were investigating him for the questionable sale of a public-sector firm during his period as head of the state holding company, the Institute for Industrial Reconstruction in 1993.

The legal system is itself under fire because the magistrates have acquired extensive power and are quarreling among themselves. Their disarray was exposed in early December when Antonio di Pietro, the investigating magistrate whose tenacious detective work helped spark the Clean Hands operation and whose rural manners and speech gave it popular legitimacy, was himself placed under investigation. With great ostentation his colleagues in the town of Brescia sent dozens of policemen to raid his

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office and homes in search of documents that would prove he had illegal dealings with the financier Pierfrancesco Pacini Battaglia, who was a leading actor in the railway scandal.

As yet the case against di Pietro looks flimsy (although there are mysterious episodes in his past) and only 6 percent of Italians believe he is guilty. He had switched jobs and until November he was minister of public works in the Prodi government. Then he suddenly resigned, proclaiming that he could no longer tolerate the attacks made against him. If he is indeed innocent of the Brescia charges, then it seems that some or all of the hordes of politicians, civil servants, and businessmen found guilty in the Clean Hands investigation are trying to destroy a symbol of justice while at the same time eliminating an enormously popular political rival.

The pessimistic view of the government's economic policy is that its success in cutting the deficit was achieved more by increasing taxes, including the creation of a special "tax for Europe," than by reducing government spending. Italy's pension system remains the most expensive in the European Union, or EU. The privatization program is moving slowly, while the reentry into the EMS was marred by the high value of the lira—990 to the German mark—which will create difficulties for Italian exporters. Italian businessmen are even forecasting that the 1997 deficit will be as high as 5 percent of GDP, which would rule out Italy's participation in monetary union.

Meanwhile, national unity is threatened by the electoral success of the Northern League, which has become the largest party in northern Italy, with 20.5 percent of the vote. The League's leader, Umberto Bossi, has adopted the policy of secession and talks of creating an independent state of Padania.

PADANIA: MYTH AND REALITY

Of this litany of woes, the issue of secession is the least understood outside Italy. There is indeed a problem, but it will not result in a Padania governed by the Northern League. There are two reasons for this. The first is that the League's real strength lies in the belt of smallish industrial towns that stretch below the Alps from Varese in the west to Treviso in the east. In the larger cities the League is weaker: when Bossi ran for Parliament in the rich, sophisticated center of Milan, he came in a poor third behind Berlusconi and the center-left candidate.

The second reason is that the League is a negative force, rather than a party of government. It grew in the late 1980s and early 1990s when the old

order was eroding. Bossi castigated immigrants, southern Italians, and the Rome bureaucrats, but this last target won him the most popularity. Bossi is a man of charisma and a mythmaker. But when he tells the tale of the medieval northern Italian cities that banded into a league to defeat the German Emperor Friedrich Barbarossa, all but his hardcore followers smile.

He gains broader support when he denounces Roman robbers and talks of decapitating the capital. Bossi personifies the Italian distrust of the state—which masks a burning need for the state. When he issues his invective, dressed in shabby pullovers and often without a tie, using the coarse language of the working-class bars of Milan, he convinces many people. They do not, however, wish to be ruled by him.

In the 1996 elections the League gained 30 percent of the vote in the Veneto region, which is the fastest-growing part of Italy. The hard-headed small entrepreneurs and workers who voted for Bossi were sending a message to the Rome government: they want more power for their local and regional authorities; from the central government they want less red tape, better infrastructure, and more job training. Theirs is a protest of people who are doing well but feel they are under-represented politically.

One answer to their demands is decentralization, which the center-left government is slowly undertaking. But moving power out of Rome will not in itself suffice. Rome must change too. In order to arbitrate among the various regions, it must not only become more efficient, but must gain the trust of its skeptical citizens.

A further complication is that almost any attempt by the state to reform society will be opposed by groups that, while proclaiming they want greater efficiency from Rome, profit from its laxity. One example is the tide of protest against the efforts made by recent governments to combat tax evasion. Since the self-employed find it easier to avoid paying taxes, governments have concentrated their enforcement efforts on this group. In turn this increases red tape and triggers protests like the shopkeepers' rally in Turin, which booed Prodi off the stage in March 1996. Continued reforms will almost certainly bring more noisy opposition.

LEARNING TO LOVE AUSTERITY AND THE MARKET

Disorder is all the more likely because the Prodi government, which is continuing the policies of all post-1992 governments (with the partial exception of Berlusconi's), is imposing austerity. Prodi justi-

fies it by the need to meet the Maastricht treaty criteria for entry into Economic and Monetary Union (EMU). But he is also using Europe to convince Italians to make sacrifices they would not be willing to make in the name of their own country. In any event, the government's goal is to enable Italy to compete in the EU and to be part of the EU's attempt to compete in the global economy.

The Italian economy has many strengths. It is dynamic: between 1978 and 1996 annual growth averaged 2.3 percent in Italy, compared with 2.2 percent in Germany and 2 percent in France. Though Italy has few large companies, some of them—like Fiat or the Assicurazioni Generali—are the equals of car and insurance companies in other European countries. Italy's small companies outperform their counterparts in France or Britain. Often rooted in the family, able to adapt to changes of fashion in sectors like clothes and shoes, quick to seek new markets (as the Venetian firms have proved by their penetration of Central Europe), and present in sophisticated sectors like electronics, the small companies have taken full advantage of the devaluation of the lira in 1992.

The problem is that dynamism in the private sector and at the local level is not accompanied by organization and discipline at the national level. In 1994, Italy's public debt reached 120 percent of GDP, compared with 55 percent in Germany and 57 percent in France. Servicing the debt meant issuing government bonds at interest rates that reached 15 percent in 1992, and in quantities that left little room for the private sector in a restricted financial market.

Such debt was manageable only because, unlike the United States, Italy had a high savings rate that stood at 18 percent of national income in 1992. But in January 1996, spurred on by the risk-penalty factor, the yield on a 10-year government bond was 5 percentage points higher than the yield on a similar German bond and the difference between the prime rate in the two countries was roughly the same. As treasury minister, Ciampi has tried to promote a virtuous circle: cuts in the current deficit mean lower interest rates that in turn reduce the cost of servicing the debt. Moreover, Italy's entry into monetary union would eliminate the risk-penalty factor.

This is why the budget for 1997 has dominated recent politics. Passing the budget was tougher than expected because the government realized that EU countries like France, whose exports have suffered

from the devalued lira, and Germany, where Chancellor Helmut Kohl has to convince a skeptical public and the austere Bundesbank that the euro, the proposed EU currency, will be as strong as the mark, were prepared to make few concessions to Italy over the Maastricht criteria. The budget is designed to save \$41 billion and to reduce the deficit to 3 percent of GDP, as agreed at Maastricht. But, although the PDS appreciates the need for austerity, the RC opposed reductions in social spending, while the unions would not permit cuts in the overgenerous pension agreement that they brokered in 1995 with the Dini government. Prodi and Ciampi had few options other than to increase taxes and to raise \$8 billion with a new "tax for Europe." This triggered a fresh conflict between the RC, which wanted to place much of the burden on the self-employed, and Dini's party, which sought to defend this group.

The center-right opposition parties pointed out that the new taxes were being imposed when unemployment was over 12 percent. Moreover, GDP had declined by 1.5 percent during the last three months and the *Economist* was forecasting a rise of only 0.8 percent for 1996 and 1.5 percent for 1997. In refusing to take countercyclical measures, the Italian government is following the example of other EU governments, such as the French. In doing so, it is doubling the risk of social disorder. The financial markets decided during the pre-budget debate to believe in the lira, but it is hard to imagine that Prodi's resolve will not

be put to the test in the coming year. This list of obstacles does not take into account the viability of monetary union as a whole; the weaknesses of "Europe" are rarely discussed in Italy.

The other aspects of the government's economic policy continue the post-1992 reforms, while protecting the poorer segments of the population. Here the Catholics and the former Communists share the value of solidarity. Unemployment has been subsumed into the north-south question: the 12 percent figure hides the plight of many parts of the south, where unemployment stands at more than 20 percent. The government is trying to break with the old regime's practice of pouring money into schemes that enriched only its supporters. Prodi is concentrating on improving infrastructure, as demonstrated by a plan to develop the Sardinian railways, and on strengthening the private sector by helping the unemployed to start their own businesses.

Perhaps the most important innovation of the post-1992 period was a July 1993 agreement requir-

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ing employers and unions to negotiate wage agreements in the context of the projected inflation rate and other economic targets fixed by the government. The agreement replaces the old method of wage indexation, which is considered to have fostered inflation, and it also gives workers a role in economic decision making. However, the agreement does not specify what to do in the event that inflation rises beyond the rate that had been set. Because of this ambiguity, the July 1993 agreement has been put to a severe test by the metalworkers, whose contract came up for renewal in 1996. Their militant union talked of recovering the extra inflation in full; employers talked of giving much less, on the grounds that agreements at company level and merit increases had already refunded most of the money the workers had lost. The metalworkers want an additional \$170 per month, whereas the employers are offering only an \$80 increase. Minister of Labor Tiziano Treu is trying to negotiate a compromise that will save the July 1993 agreement.

Privatization, perceived as the way to relieve the burden on the overworked state and to strengthen the private sector, is continuing, but it is painfully slow. Like the RC, the right-wing National Alliance (AN), born of the neofascist Italian Social Movement (MSI), is unenthusiastic about the privatization process. The state managers have a vested interest in maintaining the present status of their companies, since they do not have to worry about shareholders. At the same time, financiers and industrialists seek to block their rivals from acquiring profitable firms. As a result of these machinations, Stet, the state telecommunications company—and a particularly desirable morsel—remains in public hands. Stet has, however, been placed directly under the control of the Treasury Ministry, which has promised to privatize it in the first half of this year.

The privatization of the state-owned oil, energy, and manufacturing conglomerate, Ente Nazionale Idrocarburi, begun by the Dini government, has continued. Most big banks are less concerned with privatization than with strengthening their position by forming alliances and taking over smaller banks. Almost all banks are overstaffed and may have to eliminate as much as 15 percent of their workforce. Southern banks, dogged by decades of Christian Democratic Party (DC) corruption, and in some cases—like Sicilcasse, the Sicilian savings bank—looted by organized crime, continue to struggle.

The banks, whose charter has been changed to allow them to hold shares in companies, are supposed to become players on an expanded stock

market. The Stock Exchange Council, formed in 1993, is trying to bring more companies into the market. But Italians still worry that the privatized companies will end up in the hands of a small group of investors. Meanwhile, foreigners complain about the paucity of information provided by public companies and their shabby treatment of small shareholders. Italy must adapt to an instrument of modern capitalism that requires trust in other investors and in the organizations that run the stock market. But trust is in short supply.

THE PROCESS OF POLITICAL RENEWAL

The post-1992 period has reached a decisive moment. The process of change has penetrated many parts of Italian society. Resistance has been strong, whether it is expressed through violence, as in the Mafia's assassination of its most energetic enemies, the magistrates Giovanni Falcone and Paolo Borsellino in 1992, or in more diffuse forms, such as opposition to privatization.

Until the April 1996 elections, politics had lagged behind economic and social change, but now it has caught up by the creation of a government that has defined for itself five tasks. If successfully completed, these tasks will mark milestones on the road toward the refounding of the Italian state. Three have been discussed already: to set the state's finances on sound footing; to enter the EU's monetary union as a founding member; and to avoid secession in the north by decentralizing. This leads to the last two tasks, which are political. This is not to say that Italian life is shaped by politics, however. It may well be that the weaknesses—and successes—of the political system are determined by socioanthropological factors, such as the strength of the family, the lack of trust in people one does not know well, and the habit of forming clans. But these are factors that cannot be changed quickly. Wherever possible, Italy must try to turn such traits into strengths. Since trust is strongest in small communities, more power should be given to local government.

In the meantime, the political system must answer the demands emanating from Italian society and from Europe, which is also changing rapidly. The fourth task facing the Prodi government is, quite simply, to survive. Since 1992, no government has sent more than one budget through parliament; the center-left must be the first to do so. Political stability inspires confidence in the financial markets, as well as in the partners with which Italy bargains. Germany would be less difficult if it knew

that Ciampi would still be treasury minister in three years' time.

Alas, nothing is less certain than the five-year survival of Prodi's government. A question mark hangs over Prodi himself: does he have the political skills to gain popular support for his project? Dini clearly sees himself not only as a past prime minister, but also one in the future. Although Dini's party, RI, received just over 4 percent of the vote, Prodi's Italian People's Party received less than 7 percent.

The plethora of small parties in the coalition has its roots in Italian history. The aim of the winner-take-all electoral system was to produce large parties. It may do so, but so far the parties unite for the elections and then bicker afterward. The center-right coalition broke up after eight months of government in 1994, and the strains in the center-left are apparent.

If the RI is too small, the PDS is, according to its rivals, too big and too influential. It is hard to follow this argument because, although the PDS is Italy's largest party, it usually receives far fewer votes than the British Labour Party and the French Socialists. Moreover, the PDS is loyally fighting the battle for austerity, although it surely knows the difficulty this will create with its working-class electorate. D'Alema has announced plans to merge the party with a segment of the old Italian Socialist Party, as well as with center-left independents. He is correct to think that 21 percent of the vote is too little rather than too much for the party that forms the pillar of the center-left.

In addition to backing austerity and the reentry into Europe, D'Alema is attempting to reach agreement with the center-right on institutional changes. They are designed to strengthen the executive but also to make Parliament work more efficiently and to redefine the relationship between political and legal authority. Berlusconi is hardly the ideal partner but D'Alema is right to try, because without stronger institutions Italy will be unable to make lasting economic reforms and bargain on equal terms within the EU.

The center-left's fragility is all the more unfortunate because the center-right suffers from handicaps that make it an implausible force of government. Forza Italia did well in the elections and held its share of the vote, 20.5 percent. But it remains too dependent on its leader, Silvio Berlusconi. Charismatic in the 1994 elections, he was no longer calm and self-confident in April 1996. Since then, his dazzling smile has often been switched off, and he makes wild statements that

Italy is no longer a democracy and that he is being persecuted by an unholy alliance of communists, Catholics, and judges.

Berlusconi's legal battles continue, while his conflict-of-interest problems have merely been veiled by his decision to launch his television holdings, Mediaset, on the stock market. In fact, he retains effective control of the company. He also maintains control over Forza Italia: its provincial coordinators are elected, but at the level above, the regional coordinators are not elected but are co-opted by the national officials. Berlusconi is not leading well, but as long as he remains, it will be hard for other leaders to emerge.

The second main component of the center-right is the National Alliance. As the neofascist MSI, it won some 4 to 5 percent of the vote from the postwar years until 1992. Its chance came when the Clean Hands investigation decimated the DC. The National Alliance—which had been, as the Italian Social Movement, both a fascist party that claimed Mussolini's legacy and a conservative party that competed with the DC—took over the Christian Democratic Party bastions in the south. In the 1994 elections, the National Alliance gained 13.5 percent of the vote, with peaks of 27.5 percent in Puglia and 27 percent in Rome, where the bureaucracy was seeking protection. Party leader Gianfranco Fini made speeches full of resounding banalities that convinced many voters that the National Alliance was harmless. In 1996 it was expected to make another leap forward, but its vote rose by only 2.2 percent.

Doubts about the National Alliance's commitment to democracy are probably misdirected. More realistic are doubts about the ability of its leaders to govern and the center-right conflict between Forza Italia's belief in the free market and the National Alliance's statism. Italy is thus weakened by an opposition that governed badly in 1994—when the lira plunged and the yield on government paper rose—and that has no convincing candidate for prime minister.

In early 1997, the center-left represents the only realistic government. Its fifth task is to give legitimacy to itself—especially to the PDS—and to the new political system. Further institutional reforms are needed, but they can be only part of the campaign to create a bond between citizen and state. Prodi must overcome the distrust of the state that has plagued Italy ever since Cavour and Garibaldi, who deeply distrusted each other, unified the country little more than a century ago. This year may be decisive, the one in which the process of reform either succeeds or fails. ■

"Why does Germany, the most powerful state in Europe, appear bent on giving up voluntarily its newly won sovereign power?" Part of the answer, Peter Katzenstein argues, is that the "Germans have eliminated the concept of 'power' from their political vocabulary. They speak the language of 'political responsibility' instead."

United Germany in an Integrating Europe

PETER J. KATZENSTEIN

Revolutionary changes in global and European politics have reawakened old fears about Europe's domination by an unpredictable German giant. But these changes have also fueled new hopes for Germany and Europe as models of political pluralism in a more peaceful and prosperous world. In a different era, Thomas Mann distinguished between the specter of the "Germanization" of Europe and the vision of a "Europeanization" of Germany. It is a mistake to decide between these two views based on the extrapolation of fears from the past or hopes for the future. It is more useful to treat them as templates that may help us in discerning a more complicated pattern linking Germany and Europe.

German unification and European integration were indelibly linked in 1989 and 1990. German Chancellor Helmut Kohl's European partners gave their grudging, basic support for German unification in Strasbourg in December 1989. In return, Kohl agreed to back French President François Mitterrand's proposal to have the Intergovernmental Conference on the Economic and Monetary Union (EMU) start as early as December 1990 rather than at some later, unspecified date, as Germany had previously preferred. And, by March 1990, when it had become clear that pressure for Germany's early unification was building much more quickly than

Kohl, Mitterrand, or most of Europe's other leaders had expected, France predicated its support for an acceleration of the unification process on a German commitment to a second Intergovernmental Conference on political union that would encompass not only monetary and economic affairs but also foreign and security policy. This deal was approved politically by the European Council that met in Dublin in April 1990. It was then ratified in the Treaty on European Union, which amalgamated the proposals for economic and political union at Maastricht in December 1991. United Germany was thus to be embedded in an integrating Europe.

These diplomatic bargains point to two underlying questions. Why does Germany, the most powerful state in Europe, appear bent on giving up voluntarily its newly won sovereign power? And why have long-standing institutional inefficiencies not blocked advances in European integration? The answer to these two questions centers on a historic shift in the institutionalization of power in Germany and Europe, power that conventionally is measured in terms of material resources or bargaining strength.

The Germans have eliminated the concept of "power" from their political vocabulary. They speak the language of "political responsibility" instead. In his analysis of the taming of German power, Hans-Peter Schwarz has described a new forgetfulness of power that has replaced an old obsession with power.¹ Some observers view this rhetorical turn as little more than a cynical ploy in which the old wolf has put on new sheep's clothes; here it is regarded as an indication of a deeper transformation in the style and substance of German and European politics. The culture of restraint that characterizes German foreign policy and the conscious avoidance of assuming a high profile and a strong leadership role

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¹Hans-Peter Schwarz, *Die Gezähmten Deutschen: Von der Machtbesessenheit zur Machtvergessenheit* (The Tamed Germans: From an Obsession with Power to an Obliviousness of Power) (Stuttgart: Deutsche Verlags-Anstalt, 1985).

in the European Union (EU) emanate from the same institutional source.

The German approach to power and the practices that sustain and reformulate it emphasize its "soft" institutional elements. Other views interpret German power differently. Some stress power as a form of domination from which actors can escape only by breaking the shackles that tie them down. Or they might stress contractual bargaining relationships in which the different parties gain, to different degrees, from making deals. Such views underline "hard" elements of power. In reality, soft and hard elements always blend. For example, in the summer of 1996, British tabloids stylized an English-German soccer match as a new "war," and the tabloids viewed Germany and Britain as the main protagonists in a diplomatic war over "beef derivatives" in the mad-cow disease saga. But, at the same time, the British and German foreign offices swapped officials as part of ongoing efforts to further European integration by exploring practical steps toward a unified European embassy.

The institutionalization of power is the most distinctive aspect of the relationship between Europe and Germany. Germany's willingness to give the smaller EU members disproportionate power is puzzling. Only by moving institutional power center stage can we hope to understand why Germany is willing to give up its new sovereign power or why institutional inefficiency has not stopped European integration. Because it takes the hard edges off hard power relations, the institutionalization of power matters. Over time institutions become actors themselves rather than mere constraints on other actors' preferences. They do so within particular normative contexts (of collective expectations for the proper behavior of actors with a given identity), or for specific collective identities (such as varying constructions of statehood). Norms and identities typically have two effects. They enable actors by constituting them and thus shaping their interests. But they also constrain actor preferences.

In recent decades European states, especially Germany, have acquired collective identities that are

significantly more international than before. In this situation power is a variable quantity. Parents may act against their individual interests to further the family's interest. What may look irrational for them as individuals can be quite rational from the perspective of the family, with which they also identify. Similarly, both the individual member states and the EU family can simultaneously gain or lose power. "The term which captures most accurately the dominant character of the relationship between states and the region," concludes Paul Taylor, "is *symbiosis*. . . [T]here is no evidence to suggest that common arrangements could not be extended a very long way without necessarily posing any direct challenge to the sovereignty of states."² James Caporaso concurs when he argues that "regional integration is not a zero-sum process. . . Analysts should not have to choose between intergovernmentalism and international forms of political activity. Both logics operate in the European polity."³ Nation-states are simultaneously "throwing out" functions to the supranational level and devolving responsibilities to subnational regions. In this view, power relations do not add to a fixed quantity that either resides in national states or gets transferred to a supranational center of decision making. This makes institutionalized power "soft" compared to other types of power.

Besides the internationalization of state identities, the softness of German power in Europe is also due to the institutional similarity of the EU and Germany. In both polities power is pooled, creating a European system of associated sovereignty and German semisovereignty. In both systems it is possible to exploit superior material resources and advantageous bargaining positions to exercise hard power. But such behavior is the exception, not the rule. As Elizabeth Pond argues, German interests are advanced not in balance-of-power clashes but in "tedious bureaucratic maneuvering in the confederation-plus of the EU and the confederation-minus of the transatlantic community."⁴ Hence, what is distinctive about Germany is not its unintentional power, which, like all larger states, it possesses in good measure, but the fact that its political leaders exercise power only in multilateral, institutionally mediated systems (the EU, the Atlantic community, and broader international fora) that soften sovereign power.

SYMBOLS OF THE NEW EUROPE

In the fall of 1989, leading politicians such as Helmut Kohl, Oskar Lafontaine, Hans-Dietrich

²Paul Taylor, "The European Community and the State: Assumptions, Theories and Propositions," *Review of International Studies*, vol. 17 (1991), p. 125.

³James A. Caporaso, "The European Union and Forms of State: Westphalian, Regulatory or Post-Modern?" *Journal of Common Market Studies*, vol. 34, no. 1 (March 1996), pp. 46–47.

⁴Elizabeth Pond, "Germany Finds Its Niche as a Regional Power," *The Washington Quarterly*, vol. 19, no. 1 (Winter 1996), p. 36.

Genscher, Mikhail Gorbachev, François Mitterrand, and James Baker tried to articulate new concepts—such as “unification through association” and a “common European home”—with which to describe the new political reality. Willy Brandt, Margaret Thatcher, and Henry Kissinger captured the changes with the more familiar political terminology of national unification and national power. Both sets of voices describe important aspects of reality. National power and state interests have not become irrelevant in Europe’s new political context. But the Europeanization of that context has itself become important for how states like Germany conceive of their national interests and for how they pursue their political strategies. In a time of revolutionary change, the extension of a partly internationalized German state was in many German and European quarters accepted as a natural response.

In Germany, Europe, and more generally, state identities are primarily external; they describe the actions of governments in a society of states. National identities are internal; they describe the processes by which mass publics acquire, modify, and forget their collective identities. While national identities in Europe have probably not decreased recently, to date they have not posed an insurmountable barrier to European integration. The permissive consensus on European integration among national mass publics has been reinforced by the gradual growth of ambiguous and contested collective European identities that are beginning to complement national identities among some social strata. Cultural policy, language use, currency, citizenship, and anthems are ambiguous symbols of collective identity that mirror in the social sphere the intermingling of a “multiperspectival” polity with “multitiered” governance systems through which traditional state identities have been partly internationalized.

The institutional presence of Europe as a set of norms and a source of collective identity has been the subject of explicit political considerations. The Adonnino Committee, for example, debated a Europe more accessible to its citizens and in 1985 recommended, among other things, the extension

of student exchanges and an all-Europe television channel. The Franco-German bicultural “arte” television channel, with an estimated budget of \$150 million, has been broadcasting since 1991. Student exchanges have blossomed. Between 1995 and 1999 the EU is planning to spend about \$2.5 billion on all types of educational programs. Student applications for the largest of these programs increased from 3,000 in 1987 and 1988 to 146,000 in 1994 and 1995.

In terms of language, however, Europe is not moving toward one standard, as Spain and France did in the eighteenth and nineteenth centuries. English is the lingua franca, state languages tenaciously defend their position in the educational systems of the EU members, and regional languages have made successful incursions into national language regimes.⁵ A European living in southern England will be able to function effectively with one

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language; other Europeans will need command of their mother tongue and English; Europeans living in regions with their own distinctive languages, such as Catalonia or Scotland, will speak three languages. Europeans are institutionalizing a stable multiple language regime that they accept as natural and normal. But this regime is inefficient. States will retain separate state languages in a European and global language regime increasingly centered on English.

Much debated in the 1990s, the EMU also has an important symbolic dimension that touches Europe deeply. As with language, the outcome points to multiple collective identities. With German national identity closely linked to the deutsche mark, as is implied in the concept of mark-nationalism, the choice of a name and the look of a future European currency remained contested until late 1995. While the French favored sticking to the French-sounding ecu (identical in sound but not in orthography to the ECU, the European Currency Unit) that had been used in France several centuries earlier, Chancellor Kohl objected because this currency sounded in plain German too much like “cow” (or *Kuh*). For a while there was talk of calling the new currency the euro-franken or euro-franc, a concession to France and psychologically associated with a stable currency derived from both German history and present Swiss practice. Britain, however, vetoed the idea, dubbing the franken a “Frankenstein.”

⁵See David Laitin, “The Cultural Identities of a European State” (paper prepared for a conference on “European Identity and Its Intellectual Roots,” Harvard University, May 1993, revised July 22, 1994).

The December 1995 EU summit meeting in Madrid agreed on a new name: the "euro." The look of the currency remains to be decided. The choice of euro leaves open the possibility of a hyphenated European-national currency, as in euro-pound, euro-franc, or euro-deutsche mark, and a design that will somehow integrate the blue colors of the European flag. The subdivision of the euro into cents foreshadows such a solution. Countries adopting the common currency will be permitted to put their own designs on one side of the coins. Such a combination of European and national symbols would be compelling not only for a transitional period but as a long-term solution for a polity in which citizens may retain some aspects of their national currencies in a future EMU. New automobile license plates in Europe are a daily reminder of what a euro coin might look like; national plates are now adorned with a blue strip on the left-hand side showing the European emblem, 12 golden stars against a blue background, and the national origin of the car.

The new EU passport, issued by all countries in identical format and red color but embossed with the names of the different member states, is another example of this practice. Arriving at European airports and forming longer and slower queues, travelers who are not citizens of an EU member state quickly notice that European citizenship is becoming a reality, however slowly, even though the Europeanization of border controls remains one of the most controversial aspects of the integration process in the 1990s. Social and economic rights that were once restricted to national citizens are gradually being extended to immigrants. And a European citizenship that is partly distinct from national citizenship has become a distinct possibility.

The adoption of the "Ode to Joy" from Beethoven's *Ninth Symphony* as Europe's anthem points in the same direction.⁶ A well-known publicist for European unity in the interwar period, Count Coudenhove-Kalergie, had suggested the "Ode to Joy" as a possible anthem as early as 1949. Between 1952 and 1964, East and West Germany used the ode as their joint victory hymn at the Olympic Games. Overcoming a number of potential rivals, the ode gradually established itself as the

most widely accepted European hymn, especially in local communities. Building on many unsolicited private suggestions, the Council of Europe made its first official plea for a European anthem in June 1971. The 1971 resolution recommended the tune of the "Ode to Joy," without the words, as Europe's anthem. The famous conductor Herbert von Karajan was commissioned to make the musical arrangements, which he provided in 1972 for orchestra and brass.

In 1986 the European Parliament took "formal note of the current practice concerning the European anthem" in the hope that it and other symbols would "strengthen the concept of European identity." Although the issue of language was not explicitly debated, the tune was condemned to be left without words, not so much because of the global rather than regional appeal of Schiller's verses but because of the simple, widely understood, and undebated fact that this was a German-language text. Reflecting on the ambiguities surrounding the adoption of this anthem, Caryl Clark concludes, "[H]ere was truly a bastard-child of the Enlightenment: a song without words; hope without a text. . . . [A]t a basic level the Council of Europe acted out of ignorance, was seduced by commercialism, fell prey to an ideology which espoused the superiority of German music, and (unwittingly or not) succumbed to the powerful force exerted by the Beethoven myth itself."⁷

The wordlessness of the European anthem speaks volumes about the ambiguities created by the admixture of regional, national, European, and international elements that constitutes an evolving collective European identity. The weakness of pan-European media, multinational public discourse, and the European Parliament points to the fact that the European polity is not a democratic state-in-becoming that currently suffers from a democratic deficit. Its system of multilevel governance reflects primarily a transnational growth of public and private bureaucracies. This constrains the growth of a European collective identity and guarantees the persistence of strong national and subnational identities in an integrating Europe. Europe's collective identity has been carried by a permissive consensus among mass publics and by a strong commitment of political and social elites. Just as Beethoven continued to rework the ending to his *Ninth*, so too are European states continuously reworking a collective identity that now contains more international elements, in particular in Germany, than it has at any time in this century.

⁶This discussion follows Caryl Clark, "Confronting the Ninth: Beethoven's 'Ode' as European Anthem," ms., Music Department, University of Toronto.

⁷Clark, op. cit., pp. 13, 15.

GERMAN IDENTITY TODAY

Symbols of collective identity contain a mixture of national and international elements. In Britain and France traditional national and state identities are much stronger than in Germany, where collective identities have changed many times. In the decade preceding unification, for example, the Federal Republic was already commonly equated with Germany. German receptivity to ambiguous identities that incorporate new, internationalized forms is arguably greater than that of the British or the French. Klaus Goetz argues that "the Europeanisation of the German state makes the search for the national, as opposed to the European interest, a fruitless task. The national and the European interest have become fused to a degree which makes their separate consideration increasingly impossible."⁸ The fact that Germany's Europeanization serves Germany's broad interests reinforces the important point that, far from undermining national interests, institutions are of critical importance in helping shape the conceptions of interests that inform policy in Germany and elsewhere.

Between 1949 and 1990, Germany's division and European integration were closely connected in a cold war setting. Within the context of the United States security guarantee for West Berlin, the Federal Republic, and Europe, West Germany's integration into Europe was, in Germany and in Europe, a calculated reaction to the disastrous consequences of Germany's bid for European and global supremacy in the first half of the twentieth century. The gradual fading of these memories and the sudden end of the cold war posed once again the issue of how a united Germany should relate to Europe. The answer, before and after 1989, was the same: through European integration.

Institutional politics in the EU mediates German power. Rare in contemporary Europe is what Simon

Germany's approach to European institutions since the 1960s has been based on a broad definition of European identity.

Bulmer calls "deliberative" power, a direct international projection of German interest and power, as, for example, in the rules for the European Central Bank.⁹ The Bundesbank's high interest rate policy soon after unification was instead an instance of "unintentional power" that had strong effects on Germany's neighbors. The economic consequences of German unification thus illustrate how Germany exercises power not so much strategically as by its sheer weight. Finally, what matters most often is Germany's "indirect institutional" power. In shaping the rules of the game Germany tends to mobilize a bias favoring its policy in the long term. Indirect power eventually translates into regulative power.

Indirect institutional effects derive partly from similarities. For example, multitiered governance arrangements are typical of the EU and Germany. To be sure, the European version of "cooperative federalism" resembles Germany's only superficially.

The EU lacks an accretion of power at the top; the importance of legal institutions in the EU is due to the weakness, not the strength, of the state administration; the EU commands only a small fraction of the financial resources that are at the disposal of the German government; and the EU's Commission does not have access to a field system of administration. More important, enveloped by strong legal institutions, both the EU and Germany have multitiered governance arrangements that

institutionalize consultative bargaining and consensual decision-making procedures between different centers that are jointly involved in deliberation, decision making, and implementation.

It is noteworthy, Jeffrey Anderson has argued, that German political elites embraced the European Community initially as a means of reestablishing Germany's national sovereignty.¹⁰ Subsequently, Germany used its sovereign power to project onto its European partners a markedly different, internationalized state identity. The signing of the Maastricht treaty, however, may have been a high point of Germany's internationalization. This is illustrated by the increasing importance of the *Länder* for some policy issues and by the limits that the German Constitutional Court's 1993 judgment imposed on possible future constitutional reforms of the EU.

Since the mid-1960s, Germany's internationalist orientation has been reflected in its consistently strong support for successive enlargements of the

⁸Klaus Goetz, "Integration Policy in a Europeanized State: Germany and the Intergovernmental Conference," *Journal of European Public Policy*, vol. 3, no. 1 (1996), p. 40.

⁹Simon Bulmer, "Shaping the Rules? The Constitutive Politics of the European Union and German Power," in Peter J. Katzenstein, ed., *Tamed Power: Germany in Europe* (Ithaca, N.Y.: Cornell University Press, forthcoming 1997), chap. 2.

¹⁰Jeffrey Anderson, "Hard Interests, Soft Power, and Germany's Changing Role in Europe," in Katzenstein, op. cit., chap. 3.

EU. In the late 1950s and early 1960s, Chancellor Konrad Adenauer and Economics Minister Ludwig Erhard were still divided over the benefits of a "smaller" Europe, integrated around Germany and France, and a "larger" Europe more loosely structured to include Britain and most of the other European Free Trade Association members. But since then Germany has been a strong supporter of enlargement: British, Danish, and Irish accession in the 1970s; Spain, Portugal, and Greece in the 1980s; and the proposed eastern enlargement of the EU by the end of the 1990s. Put differently, in line with the internationalization of the identity of the German state after World War II, Germany's approach to European institutions since the 1960s has been based on a broad definition of European identity.

Unification has had noticeable effects on Germany's European policy. Underneath the "soft" power of institutional politics, newer, "hard" economic interests in the area of regulative politics express serious internal resource scarcities. These interests are beginning to supplant older, "hard" political interests that had aimed at the general stabilization of Germany's external environment.

Jeffrey Anderson notes that since 1992, the German government has tended to look much more closely at the bottom line, paying more attention to who gets what. This is not surprising. Germany is the largest net contributor to the EU budget, both in absolute and in per capita terms. While unification has made Germany drop from second to seventh in per capita income among EU members, its net contribution has increased from \$6.3 billion in 1987 to \$13.2 billion in 1992. It is estimated that it will rise to \$18 billion by 1997. In 1993 and 1994, a German household with four members paid about \$1,200 annually for the EU, more than the special solidarity tax levied after unification. By 1996 the leaders of all the major parties in Germany agreed that Germany's financial contribution to the EU amounted to about two-thirds of the EU's net income, while the German GDP made up only one-third of EU countries' total GDP; Germany's annual excess payment of about \$9 billion, they said, would have to stop.

This shift reflects new conditions at home and abroad and increases the weight of short-term interests in German policy. The issue that is likely to reflect this new condition most clearly is the eastern enlargement of the EU. Germany favors enlargement more strongly than any of the other main EU powers. But for enlargement to work, the EU and

Germany will have to allocate additional funds. Considering Germany's budgetary and economic difficulties after unification, playing the role of Europe's paymaster will become increasingly difficult. Enlarging Europe to the east and paying off the southern European countries, which worry over a shift in the EU's funding priorities, will seriously test established patterns of conducting political business in Europe. German budgetary conditions thus are likely to dictate the pace and direction of Europe's future enlargement. This change in Germany's traditional stance will rob the European polity of a traditional shock absorber.

The Europeanization of Germany during the last 40 years has been furthered greatly by a transformation of the country's nationalist and neo-Nazi right. The dynamics of party competition in the Federal Republic, reinforced by the electoral strategy of the Christian Democratic Union/Christian Socialist Union, led in the 1950s to the gradual absorption of a traditional nationalist protest vote by refugees and former Nazis into a staunchly anti-Communist conservative camp that favored European integration. The revival of a neo-Nazi right in the mid-1960s was no more than a brief interlude. The alarming increase in the 1990s of neo-Nazi social movements, such as the skinheads, with their xenophobic and racist violence has had little resonance among the established political parties and major institutions in society. After Chancellor Kohl reacted to these attacks with a thunderous silence, they were countered by a largely spontaneous social movement and an eventual crackdown by the *Länder* governments.

Finally, it is a happy accident of German history that the party of postcommunism, the Party of Democratic Socialism, absorbs in the five new German states not only the votes of old Communists but also most of those who normally would vote for a protest party on the right. Thus, despite extraordinarily high unemployment rates and totally disorienting changes, a nationalist right has been unable to attract sizable popular support in the new eastern states of the Federal Republic. History, institutions, strategy, and luck have left Germany with an extreme right that is weak, if measured by the standards of other European states such as France, Belgium, and Italy. This has enhanced the trust of other European states in German politics and policies. And it has created space for an expansion of the international elements that have gradually become part of the identity of the German state. Hence, developments inside Germany and in

Europe have run parallel, not just in terms of government policy and market transactions, but also in terms of identity and political interests.

GERMANY'S NICHE

"Europe" stands not only for the institutionalization of human and democratic rights, but also for a substantive commitment to human welfare in capitalist markets. For this the Germans have coined the term "social market economy."

Nowhere has the power of this European identity been more evident than in Germany. The unification process illustrated that collective assertion had given way to individual entitlement. Sensing this momentous change, Chancellor Kohl did not promise Germans what the Bundesbank experts were telling him to expect: blood, sweat, and tears. Instead, he promised German voters business as usual: national unification without individual sacrifice. Combined with a firmly anchored welfare state identity, this nationalism of individual entitlement typifies not only Germany but all Western European states.

The process of a Europeanization of state identity has been considerably weaker in France and Britain than in Germany. British Prime Minister Margaret Thatcher's persistent public opposition and President Mitterrand's wavering covert opposition to German unification in 1989 are a reflection of this important fact. But it was France; not Germany or the smaller European democracies, that had accelerated the European integration process in the 1980s. Once it recognized that national strategies were becoming too costly, France turned toward Europe as the most promising way to defend a redefined, more international identity. Put bluntly, France became prepared to sacrifice a measure of control in Paris in expectation of gaining new instruments of control in Brussels. France thus has begun to follow Germany's postwar foreign policy strategy: seeking to regain national sovereignty through international integration. The end of the cold war and German unification reinforced Germany's traditional and France's newly found stance. Hence the Single European Act, the Maastricht treaty, and moves toward the creation of EMU were carried by a strong French-German consensus on the advantages that derive from a more international definition of state identities and interests.

In contrast to France, Britain's relationship to Europe has been more distant. Britain's traditional identity as a global power and a victor in World War II has made it harder to accept descent to the position of an important medium-sized state in Europe. Britain's special partnership with the United States retains a strong hold over British policy, reflected in adamant opposition to a common EU security and foreign policy. The Europeanization of British identity is also undercut by the traditional British role of playing one European state off against another from a position of splendid isolation. And British politicians are deeply committed to maintaining national sovereignty and protecting Parliament's role as the guarantor of British democracy. Furthermore, many of Britain's economic interests remain global (direct foreign investment and financial services), are totally separate from the EU (oil, which the EU imports and Britain exports), or are a source of profound financial and political irritation (agriculture). For many reasons Britain's relationship to Europe has remained awkward. In short, France has sought to strengthen existing state identities within a supranational framework. The United Kingdom's half-hearted commitment to Europe stems from the fact that Europe substitutes for the diminution of a global rather than the enhancement of a national role.

By contrast, Germany and some of the smaller European states have embraced Europe as a means of strengthening and projecting existing state identities. "[F]or many states," Brigid Laffan argues, "there has been a high degree of compatibility between the national project and European integration."¹¹ This difference in orientation is reflected in and reinforced by an internationalization of Germany's position in European and Atlantic institutions that is more far-reaching than France's or Britain's. France has become a strong supporter of European integration while taking a cautious attitude toward NATO and the role of the United States in European defense matters. Britain is deeply divided over the issue of European integration but remains an avid supporter of NATO. In contrast to Britain and France, Germany's position has been to further political integration in Europe, specifically by enhancing the power of the European Parliament and extending the principle of qualified majority voting. And Germany has not lacked fervor for NATO. As Ronald Asmus noted in the April 22, 1996, *International Herald Tribune*, the first post-cold war survey of the German elite showed that "today's German leaders are overwhelmingly

¹¹Brigid Laffan, "The Politics of Identity and Political Order in Europe," *Journal of Common Market Studies*, vol. 34, no. 1 (March 1996), p. 87.

pro-European Union and pro-NATO, strongly favor enlargement to Eastern Europe, are sober about Russia's future, and are increasingly willing to deploy the German army under a NATO flag in 'out of area' missions to defend common Western interests."

German political controversies concern which international context to choose: the United Nations for peacekeeping operations, as the center-left prefers, or NATO for peace enforcement, as the center-right advocates. That the context for military action must be international is, however, beyond dispute in Germany. This is true neither of the unabashedly realist approach with which Britain seeks to defend its national sovereignty against an encroaching EU nor of the instrumental-institutionalist one with which France seeks to defend national interests with supranational instruments. Only Germany is a strong supporter of both the EU and NATO and appears ready to push ahead with a deepening institutionalization of Europe. Germany, writes Elizabeth Pond, "is thoroughly European in a way that none of its allies yet is. Germany is increasingly comfortable with its role as a medium-sized power. It no longer aspires either to be a big, cuddly Switzerland abstaining

from Europe, or [to gain] more global reach. It has found its niche."¹²

GERMANY INTERNATIONALIZED

Our initial question—will Germany dominate Europe or Europe Germany?—does not point simply to converging or crosscutting political processes that one can analyze solely in terms of material or bargaining power. The domination of one state by another and the coordination of conflicting objectives of different governments occur frequently in the European polity. But these interactions acquire different meanings in different historical and institutional contexts. And those contexts have changed greatly since 1945 as the identity of the German state has been internationalized.

Analyses that focus on the importance of material or bargaining power fail to recognize how institutions have softened the effects of German power in Europe. In brief, we need to think not of Germany *and* Europe but of Germany *in* Europe. Since the European polity offers a familiar political stage, it is highly improbable that German political elites will any time soon turn their backs on European institutions that have served so well the interests that motivate German policies at home and abroad. Germany in Europe is a political fact that will continue to define the international and national politics of the new Europe. ■

¹²Pond, *op. cit.*, p. 38.

As Europe moves closer to fiscal union and a single currency, it confronts a spectrum of national anxieties and practical concerns. For now, James Dougherty argues, the prospects for union appear strong, but with a caveat: "Prediction is a perilous task . . . when the basic political and economic interests of 15 states are at stake."

The Politics of European Monetary Union

JAMES E. DOUGHERTY

In 1986, the 12 members of the European Community (EC) agreed to create a single internal market by the end of 1992 that would allow the free flow of people, goods, services, and capital. That goal has now been more than 90 percent achieved, although problems remain in several areas and some countries have not yet passed all the needed implementing legislation.

In December 1991 the EC members completed negotiations on the Maastricht treaty, which entered into force November 1, 1993. The Maastricht treaty provided for an "ever closer" political union, as well as an economic and monetary union, including a single currency, to be launched no later than January 1, 1999. Since 1993, however, there have been recurring debates about a "two-speed Europe," "variable geometry," and "unity à la carte" as one or more member states have claimed exemptions or postponements with regard to the social charter on workers' rights, passport-free borders, police, military defense (a problem for "neutrals"), and—most important—the common currency.

Does the single market need a common currency? British Prime Minister Margaret Thatcher flatly denied that it did; the American economist Robert Samuelson once called it a "loony scheme" that "would be hard to introduce and, if introduced, would create more problems than it solved." Advocates of federal unity insist that a single market is incompatible over the long haul with unpredictable and wide fluctuations in the exchange rates of national currencies. Arguments over whether monetary union necessarily implies eventual federal union continue.

Germany and France, the twin pillars of the unity movement, have led the effort to achieve monetary stability in Europe. With strong support from Belgium, the Netherlands, Luxembourg, and Denmark, they established a European Monetary System (EMS) in 1979, with an Exchange Rate Mechanism (ERM) and an artificial European accounting unit for financial and commercial transactions known as the ECU (European Currency Unit). The ERM was designed to manage currencies and oblige members' central banks to support each other's currencies to keep them within prescribed ranges of fluctuation. The standard range was 2.25 percent, but Italy was allowed a 6 percent margin (as were Spain and Portugal when they entered the ERM in the 1980s). The ERM was supposed to be a preparation for Economic and Monetary Union (EMU)—a means of currency stabilization through the imposition of budgetary discipline on member governments. An unenthusiastic Thatcher government brought the pound sterling into the ERM in 1990—initially at the 6 percent margin. Greece, with its very weak drachma, has never qualified.

The ERM succeeded in keeping fluctuations in line for more than a decade, but during the French debate in September 1992 over ratifying the Maastricht treaty, Europe's currency markets were plunged into turmoil. Some blamed the crisis on speculators trying to profit from monetary volatility in a period of political uncertainty. Others blamed it on the unexpected costs of German reunification, the post-cold war decline in defense spending, and the massive influx of immigrants from the former Yugoslavia as well as from Eastern Europe into Germany, and immigrants from North Africa into France.

London pointed to Germany's tight money policy as a major contributor to Europe's recession and

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rising unemployment, suggesting that the inflation-allergic Germans were relying on high interest rates to spread the cost of rebuilding East Germany through Europe's financial markets. Bonn pointed back at Britain's failure to exercise greater fiscal discipline in a period of high inflation and to raise interest rates in time to prevent the pound's fall. Besides the factors mentioned earlier, both countries also shared responsibility for the misalignment in exchange rates. Speculators, as always, took advantage of a lucrative situation.

The ensuing financial turbulence knocked the British pound and the Italian lira out of the ERM in September 1992, and soon forced devaluations of the Spanish peseta, the Portuguese escudo, and the Irish punt at the height of the crisis. Still, French President François Mitterrand and German Chancellor Helmut Kohl bravely insisted that the EMU, replete with a European Central Bank (ECB) and a common currency, would be achieved no later than the 1999 deadline.

For a decade France had striven to maintain parity between the franc and the deutsche mark, but this became increasingly difficult in the summer of 1993. When in late July the Bundesbank refused to lower German interest rates, the franc began to fall precipitously and the French government proved powerless to halt the flow of capital toward the mark. EU finance ministers, in a desperate attempt to save the ERM from total collapse, agreed in early August 1993 to allow the franc and other ERM currencies (except for the mark and the Dutch guilder) to float within a margin of 15 percent. This was humiliating for France, but it was a welcome relief for other countries and eased pressure sufficiently to preserve the ERM.

For a time there were calls (including one from European Commission President Jacques Delors) for measures to curb speculators. These were rejected for fear that reimposition of capital controls would be a step backward in the single market and would create a monetary "Fortress Europe" against non-EC buyers of European currencies.

The wider band did make life more difficult for speculators. Moreover, the "softer" ERM did not,

contrary to pessimistic predictions, lead to competitive devaluation (which helps a country's trade by making its exports cheaper) or to plummeting interest rates. Instead, it gave Germany's ERM partners a chance to reduce interest rates slowly, while watching their currencies appreciate gradually against the mark because of more rapid growth and lower inflation than in Germany.

DEUTSCHE MARK ÜBER ALLES?

The Maastricht treaty went into effect on November 1, 1993. The new European Union's first important task was to start Stage II of EMU on January 1, 1994, and select a site for the European Monetary Institute (EMI), the forerunner of a future European Central Bank.¹ Germany's wish to locate it in Frankfurt was both natural and paradoxical. Frankfurt was a natural choice because of the deutsche mark's central fiscal role, but paradoxical because opinion polls showed the German public was increasingly doubtful about the merits of trading the mark for a common currency.

None of the last three presidents of the Bundesbank (Otto Pohl, Helmut Schlesinger, and Hans Tietmeyer) has been an ardent believer in a common currency. For financial and domestic political reasons they have been reluctant to abandon the deutsche mark as Europe's stabilizing reserve currency. Chancellor Kohl, however, has been determined to keep the promise he made when Germany was reunified: to make sure that Germany would be a "good European" for the indefinite future by remaining a model Western democracy anchored to a united and, if possible, federal Europe. As the continent's recognized power broker, Kohl succeeded in making Frankfurt the EMI site, thus assuring the Bundesbank that Germany will always play a strong role in a future ECB. Much will depend on whether he can still persuade the Germans to give up the mark, and whether he wins a fifth term as chancellor in 1998.

Another aspect of Stage II concerns the "convergence criteria" for entering the EMU. Who will be eligible to join? The Maastricht treaty criteria set these guidelines:

- Consumer price inflation that is not more than 1.5 percent above average inflation for the three members with the lowest inflation rates;
- A currency that has not experienced severe fluctuations for at least two years;
- An average long-term interest rate not more

¹Stage I, which began on July 1, 1990, was a four-year effort to stabilize currencies, eliminate restrictions on capital movements, and define criteria for economic convergence. Stage II is the current preparatory period in which EMU institutions are being developed and governments move their economies toward convergence. In Stage III the European Central Bank will become operative and exchange rates for the currencies of qualified members will be irrevocably fixed.

than 2 percent higher than those of the three best-performing member states;

- Annual budget deficits not exceeding 3 percent of GDP or declining toward that point;
- A ratio of government debt to GDP not exceeding 60 percent, or one approaching that point at a satisfactory pace.

These criteria are interrelated and subject to interpretation. In the last three years, all member states (including the three admitted in 1995—Austria, Sweden, and Finland) have fallen short, most significantly on deficits and debts (the exception has been Luxembourg). Even France and Germany have been and still are above the allowed limits on inflation and deficits. Portugal, the Netherlands, Italy, Belgium, and Ireland have had debts amounting to more than 60 percent of GDP, and only Ireland, Denmark, and Luxembourg have kept inflation within the 3 percent boundaries fixed by “Maastricht orthodoxy.” Greece’s economy is in the worst shape, and cannot be expected to qualify until at least the early twenty-first century.

THREE OPTIONS

European leaders have had difficulty deciding which of three courses they should pursue to fulfill the Maastricht treaty guidelines, and seem at times to be pursuing all three simultaneously. The first and easiest option is to perfect the single internal market and postpone EMU until Europe recovers fully from its recession and the EU-wide unemployment rate of nearly 12 percent. Monetary policy poses fewer hurdles to the completion of a single market than continuing disagreement or lack of enforcement regarding the social charter, worker mobility, harmonization of value-added taxes (VAT), government procurement contracts, national safety and health standards, intellectual property, company law, frontiers without passport controls, and other nonfiscal issues. Kohl, however, has expressed fear that the loss of momentum toward integration will lead not only to an economic standstill but to a resurgence of national particularism and the gradual weakening and eventual dissolution of the EU.

The second option is to loosen the qualifying criteria so that virtually all members (with the exception of Greece) would be eligible to join EMU in the “first wave,” scheduled to begin in 1999. Both Bundesbank president Hans Tietmeyer and German Finance Minister Theo Waigel have adamantly

opposed such proposals. They want even stricter criteria than those embodied in the Maastricht treaty, including budget deficits of no more than 1.5 percent of GDP in times of growth so that the long-term average will not rise above 3 percent during recessions. They also advocate penalties for delinquents. Waigel undoubtedly wants to assure the German people that the “euro” (the name he proposed for the common currency and the Madrid European Council approved in December 1995) will be as strong and stable as the mark.

German government officials have said that the timetable and the entry criteria for EMU must be adhered to, but that any conflict between the two should not be resolved by diluting the criteria. For them, postponement would be the preferable alternative. The Germans do not wish to loosen the criteria even for themselves, lest others demand leniency.

Through most of 1996, Germany and France appeared firmly committed to a third option: a “two-speed” Europe in which they, along with perhaps five or six other members, would form the advance guard of EMU and allow others a few years to catch up. The governments of Chancellor Kohl and President Jacques Chirac of France have launched austerity programs (reduced public spending, higher taxes or postponed tax breaks, wage freezes or changes in work rules, cuts in sick pay and other benefits) that have proved highly unpopular with taxpayers, entitlement program recipients, and trade unions (French truck drivers went on a paralyzing two-week strike in November 1996, forcing the government to reassess its budgetary plans). Nevertheless, several other states are using similar measures to put their economies in shape for EMU.

The Organization for Economic Cooperation and Development (OECD) and the IMF have warned that a sudden rush by several countries to meet simultaneously the convergence criteria by the end of 1997 could lead to deflation, increase the EU’s already swollen unemployment rolls, and push Europe back from a fragile growth curve to a serious recession.

PROS AND CONS

Optimists predict that establishing EMU on schedule will boost Europe’s self-confidence and reinvigorate economic growth. Besides facilitating internal trade through cost cuts in cross-border transactions, EMU promises to stabilize the euro by eliminating competitive devaluations, to attract foreign invest-

ment, and to enhance Europe's position in global financial markets when the euro becomes a reserve currency comparable to the dollar and the yen. Moreover, it will enable the EU to expand eastward in the new century, thereby strengthening the commitment of the former communist states to democracy and the market. The advocates of EMU also concur with Kohl's judgment: failure to meet the Maastricht monetary goals would mark a major setback for the unity movement and could lead to the eventual unraveling of the single market and revive the kind of nationalist policies that all too readily end in conflict.

Among the pessimists, British "Euroskeptics" are at the forefront—but certainly not alone—in advancing three arguments. The first is that several EU members cannot meet the convergence criteria by 1999; thus if EMU occurs it will split Europe into first- and second-class members and may even impose burdens on trade in the single market. Second, as transition deadlines approach, speculators cannot be prevented from disturbing currency markets (as they did in 1992 and 1993), except by imposing illiberal controls on capital movements. Finally, as the IMF and the OECD have warned, EMU-driven austerity programs will depress the sluggish growth rate throughout Europe and increase unemployment.

THE EMU TIMETABLE

The European Commission has ruled out a "big bang" approach under which the euro would suddenly replace national currencies, deciding in June 1995 to make the transition over four years. A critical decision will be made in the spring of 1998, when the emi will identify those countries that fulfill the Maastricht treaty convergence criteria. This process has already generated a good deal of controversy over how the criteria are to be interpreted and what kind of statistical data should be used. Depending on how many and which countries qualify, the 15 EU heads of governments will then decide whether to proceed with the establishment of the EMU by the January 1, 1999, deadline. By that date, assuming an affirmative decision in the spring of 1998, the European Monetary Institute will have become the European Central Bank, and the conversion rates irrevocably locking national currencies to the euro will be set. Locking conversion rates will curb speculation in EMU member currencies. After January 1, 1999, the ECB will

determine monetary policy for all EMU member states' central banks, whose heads will compose the ECB's governing council. The ECB's main function will be to allocate the money supply for each member state and to maintain price stability by controlling interest rates in a system whose varying rates of growth, unemployment, inflation, and budget deficits will require adjustments by the ECB from time to time.

For a three-year period, however, the euro will exist as a unit of currency account; only in 2002 will the euro take physical form as actual cash notes and coins. From January 1, 1999, to December 31, 2001, it will be possible to conduct financial transactions in euros (issuing bonds, entering contracts, transferring funds, quoting prices) because the permanent conversion rates will have been fixed. All cash transactions will be carried out in national notes and coins.

Although monetary union has significant economic implications for all EU members, in the final analysis it will be a matter of the highest politics. . .

The three-year waiting period is required in order to mint the new coins (1, 2, 5, 10, and 50 cents, as well as 1 and 2 euros) and to print seven notes (5, 10, 20, 50, 100, 200, and 500 euros). The coins will have a "European" design on one side and a national design on the other. The notes will carry generic Union designs (windows, gateways, arches and bridges of seven different ages from classical to modern) on one side, and a small space (perhaps 20 percent) will be reserved on the reverse for a national symbol.

Each note will have its own distinctive size and dominant color for ease of recognition. Existing national currencies will cease to be legal tender within EMU member states six months after the euro is placed in circulation on January 1, 2002. (Some want the transition period drastically reduced from six months—even to one day—to limit confusion and speculation.) Union members that remain outside EMU will be free to operate within the Exchange Rate Mechanism's 15 percent margin of fluctuation or within a lower negotiated band.

CHARTER MEMBERS?

In November 1996, the European Commission optimistically forecast that 12 of the Union's 15 members might be able to meet the Maastricht criteria in 1997 if the criteria could be flexibly interpreted in a few cases, especially with respect to national debts above 60 percent of GDP. The three nonqualifiers are those outside the ERM: Britain,

Sweden, and Greece. The failure of Britain and Sweden to qualify under the Maastricht criteria results from internal dissent over certain aspects of EU membership, rather than the current state of their economies. Sweden, which voted by a narrow margin of 52 percent to join the union in 1994, is deeply split over the single currency. Prime Minister Goran Persson is in favor, but his own Social Democratic Party insists on a vote in the Rikstag. Greece, as noted earlier, cannot possibly qualify for several years. Britain and Denmark, having reserved the right to opt out of the common currency, are not expected to be candidates for "first-wave" entry. Since there is majority support for EMU in their business communities and substantial political opposition to it, both countries will put membership to a referendum.

Although British Labour Party leader Tony Blair at times appears more pro-EU than Conservative Prime Minister John Major, Blair's party still houses a strong anti-European wing, and today is no less divided than the Conservatives over EMU because it may pursue "capitalist" policies harmful to unions, in spite of its "social charter" for workers, which the Conservatives oppose. Both Major and Blair have been criticized for skirting the single currency issue in the run-up to the parliamentary elections—which must be held by May 1997 and may occur even earlier, now that there is no majority in Parliament. Both leaders promise a popular vote if and when the government should decide to enter EMU. No matter which party wins, it may by then be too late to prepare for first-wave entry.

Among the southern tier countries, the governments of Italy, Spain, and Portugal have made it a matter of political prestige and national honor to be part of the first wave, despite the doubts of the IMF, President Chirac, and many economists.

Italian Prime Minister Romano Prodi has pursued a course of belt-tightening that has led to protest strikes. He improved Italy's fiscal credibility by bringing the lira back into the ERM in November 1996 after an absence of more than four years, but Italy (whose debt is more than 120 percent of GDP) is not certain to qualify unless the criteria are interpreted generously.

If EMU begins on schedule, the most likely charter members will be Germany, France, Belgium, the Netherlands, Luxembourg, Ireland, Finland, and perhaps Austria.² Italy, Spain, and Portugal are less likely, but they cannot be ruled out. As noted, Britain, Denmark, and Sweden have yet to decide whether to join. Finally, neither Germany nor France, the indispensable players, can yet be certain of fulfilling the criteria by the end of 1997.

RECENT HURDLES ON THE EURO TRACK

Several practical problems to monetary union became apparent during the second half of 1996. The first was an acrimonious argument about a European "stability pact." Germany had consistently tried to reassure a skeptical public that the euro will be as solid as the mark. However, when Italy, Spain, and Portugal announced strenuous efforts to meet the Maastricht criteria in 1997, the Bonn government and the Bundesbank became more worried than ever. German Finance Minister Waigel reiterated a two-year-old proposal to toughen the criteria by making the budget deficit limit of 3 percent the maximum "worst case" in bad times, urging governments to aim for 1.5 percent during good times. He demanded a stability pact to ensure sustained fiscal discipline after EMU begins, and insisted that any member exceeding the 3 percent deficit level for more than six months face stiff penalties.

Most Union finance ministers considered Bonn's terms too severe, depriving a government of fiscal discretion when faced with an economic downturn. They wanted temporary exemptions from penalties to be granted under "exceptional circumstances" such as recession or natural disaster. A compromise was reached at the December 1996 Dublin summit. States running excessive budget deficits will be given a 10-month warning and must deposit from 0.2 to 0.5 percent of GDP with the European Commission; this amount will become a fine if the deficit has not been removed in two years. If a state experiences a natural disaster or if its GDP falls 2 percent in a year, it will be automatically exempt from penalties; in case of a fall between 2 and .75 percent, EU ministers may consider the entire record and impose penalties at their discretion; below .75 percent, penalties will be automatic. Waigel seemed satisfied with the compromise.

The cost of converting to the single currency is the second hurdle that must be overcome. Obviously, those who depend on currency exchange for income will lose a considerable sum. Banks, multinationals,

²The Austrian schilling is in the ERM, but Austria's future attitude became a question mark after its October 1996 elections to the European Parliament. The rightist anti-European Freedom Party, which campaigned against the austerity budget the government put in place to prepare for EMU, proved almost as strong as the pro-EMU ruling Social Democrats.

and domestic businesses that import or export must retrain their employees and prepare for double pricing and tax accounting for a period as long as three and a half years. Vending machines, pay telephones, cash registers, and taxi and parking meters must be replaced or modified. The most expensive and technically difficult challenge will be changes to computer systems involved in banking, finance, and commercial transactions. The millions of dollars this conversion will cost are a risky investment for a future event fraught with uncertainty. Systems experts have warned that there may be computer chaos and a severe shortage of software expertise needed to handle such a complex transition.

The third hurdle is working out rules to govern relations between EMU “insiders” and “outsiders.” EU states that remain outside the single currency have been concerned about discriminatory policies. For the sake of controlling monetary policy and confining EMU benefits to members who have paid for them, Germany and France in mid-1996 proposed limiting the access of banks in nonmember countries to the euro payments and settlement system known as Target. British and Danish bankers worried about remaining competitive if their access to euros was restricted by their nonmember status, through, for example, differential costs of transactions or length of trading hours. Alarmists noted that any limits on Britain’s ability to convert pounds to euros might cause the City of London to forfeit to Frankfurt its position as Europe’s financial capital; some banks even considered relocating to Frankfurt. British officials hinted at legal action against any new burden imposed on the single market’s freedom of capital movement. Fears were calmed somewhat when Europe’s leading banks supported a December 1996 plan to provide an alternate euro payments clearing mechanism through the ECU Banking Association, which will continue to serve non-single-currency members in a revamped ERM system.

The final and perhaps most serious hurdle is potential controversy over interpreting the Maastricht convergence criteria. Here the debate is between reasonable “flexibility” and deceptive

“fudging.” Germany suspects some states have already resorted to “creative accounting” to make their 1997 budget deficits fit the criteria. France, for example, will count as national income a windfall in the form of a future pension liability payment from a partially privatized *Télécom* amounting to 0.5 percent of GDP. Italy plans to collect a Eurotax surcharge that will later be rebated. These are one-time gains, however.

Furthermore, budget statistics for 1997, which are crucial for determining eligibility, will probably lead to wrangling between the EMU and national finance ministers; EU countries use differing methods to measure inflation, deficits, and debts.

THE STAKES

As 1997 began, EMU appeared to be on track. Most EU governments were anxious to be in the first wave; only a few preferred to wait and see. A large majority of economists and politicians expected monetary union to happen. Companies were conducting seminars; supermarkets were holding “euro teach-ins” for consumers; and makers of cash and vending machines were anticipating handsome profits. The OECD was forecasting a two-year period of modest economic growth.

Prediction is a perilous task, however, when the basic political and economic interests of 15 states are at stake. Public moods are volatile, and elections in several countries before the end of 1998 could usher in new leaders, ruling parties, and national policies. And key personalities may pursue different goals for a variety of motives. Kohl and Chirac both seek a single currency, but for different reasons: Kohl as a means to create closer political unity, Chirac to gain leverage over the Bundesbank while concurring with Major on the undesirability of federal union. Although monetary union has significant economic implications for all EU members, in the final analysis it will be a matter of the highest politics: the national sovereignty, identity, and independence so dear to Chirac and Major versus Kohl’s Euro-idealism, aimed at solidifying one of the world’s most war-prone regions into a lasting zone of peace. ■

"Peace in Europe depends as much on political stability and economic prosperity as on arms control arrangements. The enlargement of both NATO and the European Union eastward is thus the most important way to share the benefits of the Western security community. But this is a necessarily slow process. . . . In the shorter term, arms control diplomacy can play an important role in building trust and confidence between former warring factions."

Toward a Secure Europe

JANE M. O. SHARP

During the cold war, European security was thought to depend in large part on maintaining a stable military balance between two adversarial alliances: the United States-led North Atlantic Treaty Organization (NATO) and the Warsaw Treaty Organization, dominated by the Soviet Union. Relations between the two blocs fluctuated between tension and détente, but diplomatic contacts were always maintained to make sure the cold war did not erupt into actual warfare.

Arms control diplomacy was an important factor in maintaining stability during these years. The pace was plodding and progress incremental, and the goals were modest: to build confidence and trust between potential adversaries. Deep cuts in military forces through negotiation were not anticipated, though reductions were sometimes achieved by unilateral actions. Agreements took years, even decades, to conclude and usually reflected—rather than affected—the state of East-West relations.

Mikhail Gorbachev changed all this when he assumed the leadership of the Communist Party of the Soviet Union in 1985. He used arms control as a tool to alter relations not only between the Soviet Union and the West, but also between the Soviet Union and its Warsaw Pact allies. Gorbachev was impatient with the pace of traditional diplomacy, and with the preoccupation of his military staff with

codifying parity with NATO and preventing the intrusive inspection of Soviet territory.

Gorbachev's first innovation was to allow foreign inspectors onto Soviet territory to verify the confidence- and security-building measures (CSBMS) negotiated at the 1986 Conference on Security and Cooperation in Europe (CSCE) meeting in Stockholm. This new openness also facilitated the conclusion in 1987 of the Soviet-American treaty banning intermediate-range nuclear forces.

Gorbachev was especially impatient with the long-running NATO–Warsaw Pact negotiations on Mutual and Balanced Force Reductions (MBFR) that had been under way in Vienna since 1973, with no tangible result. He believed the Soviet economy required deep cuts in military spending and suggested that instead of building up to parity, NATO and the Warsaw Pact states would do better to build down. Specifically, Gorbachev said that whichever side was ahead in a particular category of weapons should be the one to make reductions. Gorbachev put this idea into practice in December 1988 at the United Nations when he announced unilateral withdrawals of Soviet troops from Central Europe.

Gorbachev's proposals rendered the MBFR talks redundant. More purposeful talks began in March 1989. These produced the Conventional Forces in Europe (CFE) treaty in November 1990, which set equal ceilings for NATO and the Warsaw Pact in tanks, armored combat vehicles, artillery larger than 100mm caliber, combat aircraft, and helicopters in a series of five zones. Four of these zones are nested like a *matryoshka* doll to permit free movement of forces away from but not toward Central Europe. A fifth or "flank zone" surrounds the four nested zones. CFE mandated the destruction of some 50,000 pieces of treaty-limited equipment during a

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three-year reduction period between 1992 and 1995, and established a regime of inspections and exchanges of information designed to remove the threat of surprise attack by making each alliance transparent to the other.

NATO and the Central European members of the Warsaw Pact judged CFE an unambiguous success and gave Gorbachev much of the credit. The problem was that Gorbachev and his foreign minister, Eduard Shevardnadze, did not have the Soviet military's backing for their conciliatory overtures to the West. The Soviet General Staff did not veto the signing of CFE, but it did its best to sabotage the treaty and evade its provisions. Senior Soviet military officers resented CFE because it mandated the destruction of more equipment by Warsaw Pact members than by NATO. As the Warsaw Pact and the Soviet empire collapsed, CFE became even more humiliating, codifying Russian inferiority with NATO, although Russia remained the most powerful state in Europe. German unification, plus the desire of all the former European members of the Warsaw Pact to join NATO, exacerbated Russia's sense of loss.

ARTICLE V AND RUSSIA'S "EXTRAORDINARY" CIRCUMSTANCES

CFE provides for the convening of "extraordinary conferences" should the treaty require adaptation. Three such conferences were held during the early 1990s: in 1991 to settle disputes over Soviet data on military equipment; in 1992 to adjust to the dissolution of the Soviet Union; and in 1993 to note the separation of the Czech and Slovak republics. In September 1993, Russia asked NATO to convene a fourth extraordinary conference to revise Article V of the treaty, which sets limits for the flank zone.¹

Russia claimed, with some justification, that since the breakup of the Soviet Union, Article V had become discriminatory with respect to Russia and Ukraine, the only state parties whose territories straddled more than one treaty zone. Thus Russia and Ukraine were subject not only to numerical limits—as were all state parties—but also to geographic restrictions within their own sovereign ter-

ritory. NATO was reluctant to revise the zonal aspect of the treaty, even though the United States, Germany, and the United Kingdom expressed some sympathy for the Russian predicament. Had NATO dealt with the flank problem when Russia first raised it in 1993, all might have been well. However, the problem was allowed to fester until 1995, by which time Russia had moved even more equipment into the flank to conduct its war against the secessionist republic of Chechnya. Most NATO states were by then reluctant to make any concessions on Article V, lest they seem to condone Russian brutality in the Caucasus.

The result was that the CFE reduction period ended in November 1995, with Russia in violation of two key provisions: Article V and a politically binding commitment of June 1991 to destroy the equipment moved east of the Urals by the Soviet Union just before the treaty's signing in 1990.

In May 1996, at the first five-year review conference of CFE, the United States persuaded the other CFE parties not only to turn a blind eye to Russian noncompliance, but also to redefine the zones in Russia's favor. The United States was anxious to make NATO enlargement more palatable to Russia and to shore up Russian President Boris Yeltsin's reelection prospects. Not surprisingly, this pleased General Pavel Grachev, the Russian defense minister, who saw the NATO concessions as vindicating Russian demands to revise the flank ceilings. Many Europeans, however, feared that acquiescence in Russian violations set a dangerous precedent. Several CFE parties were also irritated by what was essentially a bilateral United States–Russian deal at the expense of the security interests of small states contiguous with or close to Russian territory. These included Norway and Turkey in NATO, as well as the former Soviet states of Moldova, Georgia, Ukraine, Azerbaijan, and Armenia. Some nonparties to CFE were also upset by the final document of the review conference, notably the three Baltic states: Estonia, Latvia, and Lithuania.

THE IMPACT OF NATO ENLARGEMENT

Two issues dominate the debate about adapting CFE to the new political realities in Europe: how NATO enlargement will affect CFE, and whether CFE limits should be harmonized throughout Europe.

During 1995, senior Russian Foreign Ministry spokesmen articulated seven conditions that would make NATO enlargement more palatable to Russia: no forward-based nuclear weapons and troops; no hasty enlargement to upset the 1996 Russian elec-

¹Article V defines the flank zone as the NATO territories of Iceland, Norway, Greece, and Turkey; and the former Warsaw Pact and Soviet territories of Bulgaria, Romania, Georgia, Moldova, Armenia, and Azerbaijan as well as Russia's Leningrad (now St. Petersburg) and North Caucasus military districts and the Odessa military district in Ukraine.

tions; and no NATO exercises on former Warsaw Pact territory. Russia was also not to be permanently excluded from NATO, new NATO members should remain (as France and Spain then were) outside NATO's integrated military command, and the CFE treaty should be revised. When Yevgeny Primakov replaced Andrei Kozyrev as foreign minister in January 1996, he emphasized the "no nukes, no troops" conditions, but also spoke of no forward movement of NATO infrastructure onto the territory of new NATO states.² Russia also argued that the CSCE's successor, the Organization for Security and Cooperation in Europe (OSCE), should replace NATO as Europe's main security organization.

NATO adopted manifestly conciliatory policies toward the former Warsaw Pact states, including all the former Soviet republics, once the pact and the Soviet Union collapsed in 1991, but NATO could brook no outside interference in the running of its internal structures. An obvious way to assuage some of Russia's hostility to enlargement, however, was to pay more attention to requests to modify CFE. In mid-January 1997, OSCE agreed that the CFE state parties should open negotiations in Vienna to modify the treaty. Without making specific promises or proposals, NATO agreed to review the following issues: the bloc-to-bloc structure of CFE; how NATO enlargement would affect CFE ceilings; the possibility of putting excess equipment into secure storage rather than destroying it all; and the possible extension of the scope of CFE to cover new states.

France and Russia, who were the strongest advocates of national (versus group) ceilings, had not by late 1996 offered any specific proposals on how national ceilings would work. In London, skeptical British officials asked how national limits would apply in the different zones and, in particular, how they would apply to United States holdings in Europe, since United States territory is not within the CFE area.

NEGOTIATING BEYOND DAYTON

In the debate about NATO enlargement, few suggest the admission of any of the former Yugoslav republics, except perhaps Slovenia. The question

then arises as to what, if any, security guarantees can be offered to the region. Some suggest that NATO could extend its Partnership for Peace (PFP) program to form a virtual protectorate.³ Others think the United States should offer bilateral guarantees. Another possible means to gain a greater sense of security for states aspiring to post-first-wave NATO membership would be to join the CFE regime before joining NATO. For the former Yugoslav states, much will depend on the success of the post-Dayton arms control agreements.

The arms control provisions in the December 14, 1995, Dayton (Paris) peace agreement for Bosnia and Herzegovina are to be found in Annex 1-B, which deals with regional stabilization. Articles II and III require the parties to negotiate CSBMs. Article IV mandates the parties to negotiate a subregional arms control agreement limiting the same five categories of heavy weaponry as in the

original CFE treaty. Article V stipulates that OSCE will assist the parties in negotiating a regional arms control regime "in and around the former Yugoslavia."

In late January 1996, the former warring parties in Bosnia negotiated on schedule a series of CSBMs modeled on those negotiated throughout Europe under the OSCE's predecessor, the CSCE. Inspections and exchanges of information were conducted during 1996 under the supervision of OSCE. Some of the post-Dayton CSBMs go further than those in the OSCE regime by

restraining military deployments in certain areas, withdrawing heavy weapons to cantonments, and banning the reintroduction of foreign forces.

On June 14, 1996, a subregional agreement was signed that limits five categories of weapons on the basis of a 5:2:2 ratio among Serbia and Montenegro (which make up the rump Yugoslavia), Bosnia and Herzegovina, and Croatia. Within Bosnia the ratio of agreed limits between the Muslim-Croat Federation and Republika Srpska (Serb Republic) is 2:1. The five categories consist of battle tanks, armored combat vehicles (ACVs), attack helicopters, artillery larger than 75 mm caliber, and combat aircraft.

The subregional agreement provides for a 16-month reduction period and protocols for destruction and inspection. Under pressure from the Contact Group, the reduction period was front-loaded, meaning that by the end of 1996, 40 percent of the reduction liability should have been met for aircraft, helicopters, and artillery, and 20 percent

*The question
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of European
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of Russia. . .*

²Author interview with Primakov in Moscow, April 1996.

³NATO offered the PFP program to all non-NATO European countries—including Russia—in late 1993. The program is designed to democratize armed forces.

of the liability for tanks and ACVs.⁴ The initial idea was to implement as much of the agreement as possible during the term of the NATO-led Dayton Implementation Force (IFOR). In mid-December 1996, however, NATO agreed to deploy a follow-on force to IFOR over an 18-month period between January 1997 and June 1998; among other things, the force will be responsible for supporting the implementation of arms control agreements.

By December 1996, it appeared that Croatia and Serbia had met the target to cut 40 percent of their excess aircraft, helicopters, and artillery and 20 percent of their excess tanks and ACVs. Neither the Serb Republic nor the Muslim-Croat Federation was believed to be in compliance. The main difficulty for the federation was not a dispute about its overall reduction obligations, but problems associated with the merger of the Muslim and Croat armies. Despite a document providing for joint command that Presidents Alija Izetbegovic and Kresimir Zubak signed in early October 1996, at the end of the year the armies remained separate and neither could agree who was responsible for destroying which pieces of excess equipment. With respect to the Serb Republic, there was still a large discrepancy in declared holdings of equipment, with the Bosnian Serbs claiming invalid and unreasonable exemptions. Another problem was that the Bosnian Serbs resisted cutting excess treaty-limited equipment as long as the United States continued to train and equip the federation armies.

TRAIN AND EQUIP DERAILED?

"Train and Equip" is the less controversial title for the "Arm and Train" program the United States promised the Bosnian government during the Dayton negotiations. The fact that no mention of the program appears in the language of the peace agreement reflects American sensitivity to the opposition of most of the NATO allies. The United States nevertheless promised to implement Arm and Train, despite allied opposition, because President Bill Clinton needed a more capable Bosnian army to justify the withdrawal of United States troops from IFOR by the end of 1996.

Transatlantic differences on Train and Equip recall intra-NATO differences on the arms embargo

during the war in Bosnia. While paying lip service to the embargo on all the former Yugoslavia republics, in 1994 the Clinton administration gave a green light to arms shipments to Croatia and Bosnia from a number of Muslim countries, including Iran, Turkey, Saudi Arabia, and Malaysia.

While there was a strong legal case for lifting the embargo against Bosnia when its independence was recognized in April 1992, and subsequently a strong moral argument for giving Bosnia the means to defend itself against the better-armed Serbs, all suggestions of arming the Bosnians were strongly opposed by almost every European country, especially the United Kingdom and France, which provided the bulk of ground troops for the UN peacekeeping force in the country.

These differences continued after the war. Rather than lift the arms embargo on the former Yugoslav states—as it was permitted to do after conclusion of the Dayton peace agreement in late 1995—the European Union adopted in February 1996 a policy of maintaining an embargo on arms shipments to any part of the former Yugoslavia as long as either UN or NATO troops remain on the territory. Transatlantic differences about the program also put the Polish government in a difficult position in the summer of 1996. As an aspirant to NATO, Poland strives to maintain good relations with all NATO governments, but on this question was forced to choose between the United States and the West Europeans. When the Clinton administration tried to persuade Poland to supply some of its excess T-72 tanks to the Bosnian army, Poland refused (despite a generous United States offer of compensation), citing its desire to stand in solidarity with the rest of Europe in not supplying arms to any of the former warring factions.

The least provocative aspect of Train and Equip is the imposition of Western-style political-military relations in Bosnia, and the imposition of defensive as opposed to offensive postures. The more troublesome aspect is the training of Bosnians to use offensive United States equipment. The training has been contracted out to a United States company, Military Professional Resources, Inc., which also trained the Croatian army during the war.

The two main problems with Train and Equip are that it undermines Bosnian Serb interest in the subregional agreement and hinders prospects for the integration of Bosnia and Herzegovina. If the Western democracies are serious about those aspects of the Dayton peace agreement that seek stability through a single, integrated, multiethnic

⁴The Contact Group, which is comprised of the United States, Russia, the United Kingdom, France, and Germany, served as a steering group for the Bosnia peace negotiations in 1994 and 1995 and serves now as the core of the Peace Implementation Council for the Dayton peace agreement.

and multiconfessional Bosnia, there will have to be a greater effort to encourage reconciliation between the Muslim-Croat Federation and Serb Republic. Train and Equip goes in the opposite direction, toward permanent partition. Too many commitments have been made by President Clinton to the Bosnian government and to the United States Congress to cancel the program. One solution, however, might be to offer the training element of Train and Equip to the Serb Republic and the federation on an equal basis. If there is to be an integrated Bosnia, the separate Croat, Muslim, and Serb armies in Bosnia must eventually train together. This will be more easily achieved, and with more democratic political-military relations, under NATO supervision.

Article V of Annex 1-B of the Dayton agreement commits the parties to seek a wider Balkan arms control regime. This could include not only former Yugoslav states like Slovenia and Macedonia, but also Albania and the Balkan states that are parties to the original CFE agreement: Turkey and Greece as well as Romania and Bulgaria (and perhaps Hungary, although Hungary likes to avoid being labeled a Balkan nation).

Expanding the subregional agreement throughout the Balkans will be problematic, not only because the region has some fuzzy edges, but also because three Balkan parties to CFE (Bulgaria, Romania, and Greece) announced that they will not be subjected to tighter limits in a new treaty. Much will depend on the negotiations to adapt CFE that began this January. If the CFE regime embraces the former Yugoslav states, there may be no need for a separate Balkan arms control regime beyond the June 1996 subregional agreement.

TRANSPARENCY AND THE CLOUDED FUTURE

Peace in Europe depends as much on political stability and economic prosperity as on arms control arrangements. The enlargement of both NATO and the European Union eastward is thus the most important way to share the benefits of the Western security community. But this is a necessarily slow process requiring difficult adjustments and restructuring. In the shorter term, arms control diplomacy can play an important role in building trust and confidence between former warring factions, not only in the former Yugoslavia, but perhaps also in the former Soviet Union. In addition to curbing offensive military equipment, the main benefit in recent agreements like the CFE treaty and the post-Dayton subregional agreement is the increased transparency of military force postures and defense planning, which in turn helps to build trust and confidence.

The question mark hanging over the future of European arms control is the behavior of Russia, and the example that Russia sets for other former Communist states such as Serbia. Western governments (especially the United States and Germany) continue to give President Boris Yeltsin the benefit of the doubt despite his record: CFE violations, the war against Chechnya, hostility to NATO enlargement, and gross mismanagement of the Russian economy. The optimists in Washington and Bonn may be correct that Yeltsin will turn out to be a democrat, but there is no evidence of it on the arms control front. There, as in Chechnya, Yeltsin has so far been closer to Leonid Brezhnev than Gorbachev. The smaller European countries are hoping that Western leaders will stop rewarding bad behavior in Moscow and begin to demand higher standards from Russia in meeting its international obligations. ■

"It is true that the people in transition states 'need time' to adjust to more open societies. But the people who seem to need the most time and the most help with adjustment are not the citizens but the political leaders and intellectuals who are so critical of them."

The Struggle to Democratize the Slovak Republic

MARY ANN TÉTREULT AND ROBIN L. TESKE

Following the collapse of communism in Central and Eastern Europe, Americans heard a great deal about the impending end of history—a presumably unstoppable global march toward democracy and economic liberalization. Along with the general public, policymakers, commentators, and many scholars were persuaded that the West's long crusade against the "evil empire" of communism had been won.

Some observers, however, immersed themselves in the problems of the newly postcommunist states, investing in their economies, operating training and development programs, and dispensing charity. Many such ventures offered at least as much to the donors as to the recipients: strong profit potential, government and foundation grants, and attention from the international media, itself both a promoter of and a featured participant in postcommunist chic. All these activities provided "entry points" for the re-creation of domestic, political, and economic life by the people of the newly liberated states.

Dissident leaders and the population at large faced choices they had only dreamed about before. How would they reorganize their states and

economies? How could they ensure national security and domestic tranquility while dismantling the institutional and ideological legacies of communism? For the discredited apparatchiks of the old regimes, such dreams were nightmares. How could they hold onto political power, control of the economy, and the advantages they had enjoyed for so long over their fellow citizens?

The pressure to democratize and liberalize quickly was not merely a desire for "freedom now." It reflected an urgent need to evict the old guard as quickly as possible, before it could run off with whatever was worth taking or entrench itself permanently in the new state.

UNITY'S END

When liberation came, the Slovak Republic was still part of the Czechoslovak federation. During the 1989 "Velvet Revolution" that brought down Czechoslovakia's Communist regime, Slovakia was a minor player in the decrepit federal state, just as Slovaks were a minority among the dissidents. But Slovakia and the Slovaks bore the larger share of the impoverished legacy left by so many years of war and foreign domination.¹ In January 1990, in his first public speech as president of postcommunist Czechoslovakia, Vaclav Havel observed, "Our country is not flourishing." Environmental pollution, a decaying educational system, an economy producing little of value to a population starved of many material goods, and—something Havel did not mention in his speech—a nation divided by old resentments, combined to present a daunting challenge to the new regime.

The dissident movement, itself "federalized" under the separate umbrellas of the Slovak Public Against Violence (whose Slovak initials are VPN),

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¹This is especially evident if the economies of the two republics are compared. Slovakia had the larger share of highly polluting factories and industries devoted to making weapons for Warsaw Pact members and for sale to third world countries. Czech industries required a higher proportion of skilled to unskilled labor than Slovak industries. Slovakia's economy also was more agricultural than the Czech economy.

and the Czech Civic Forum, was also in disarray. This division reflected both the organization of the Czechoslovak state and a tenet of the VPN, which was to achieve "self-determination for the Slovak part of the Czecho-Slovak state but within a federal framework." Deceived by their unity against totalitarianism, the dissidents were as amazed as everyone else at how rapidly the movement collapsed into factions even before the first national elections were held under the new Czechoslovak constitution in June 1990.

The VPN split even before the elections when former dissident Jan Carnogursky formed a separate Christian Democratic Movement (KDH) in February 1990. The VPN won the elections for the Slovak parliament elections and chose Vladimir Meciar to be the republic's prime minister, but Meciar took his supporters into another new party, the Movement for a Democratic Slovakia (HZDS), in March 1991. This so weakened the governing coalition that the Meciar government fell and Carnogursky was named prime minister, the first Slovak leader to adopt an openly separatist stance.

The next national elections in June 1992 took place in an atmosphere of rising Slovak nationalism. Unemployment rates in excess of 11 percent helped Slovak nationalists make their case, not only against continued participation in a joint state with the Czechs, but also against the Hungarian national minority and even against the few remaining Slovak Jews. However, the only party openly advocating independence was the Slovak National Party (SNS).

Vaclav Klaus, a Czech, and Meciar, a Slovak, built strong political organizations in time for the 1992 elections. Klaus, an economist who openly patterned himself on Milton Friedman, spearheaded the formation of "a real political party" with local branches and campaign organizations throughout the Czech lands of Bohemia and Moravia. Klaus's Civic Democratic Party, which he split off from the Civic Forum, took 30 percent of the vote for the Czech parliament in the June elections and Klaus became prime minister of the Czech government.

Meciar, a former Communist expelled from the party in 1970 for his alignment with the reformers during the 1968 Prague Spring, had similar organizational advantages and did even better. Running on a platform somewhere between Carnogursky's toned-down rhetoric and the radical position taken by SNS, the Movement for a Democratic Slovakia

won 37 percent of the vote for the Slovak parliament, and Meciar became prime minister of the Slovak government for the second time.

Vaclav Havel, the federation president, was the only leader of any stature advocating the preservation of Czechoslovakia. Marginalized by Klaus and openly vilified by the SNS, Havel lost his bid for reelection to the federation presidency in July 1992 largely because a majority of the Slovak deputies in the federal assembly voted against him. Havel is not without blame for the dissolution, given the rapidity with which he resigned himself both to the dissolution and its unconstitutionality. In one of his last acts as president, Havel authorized Prime Ministers Meciar and Klaus to devise a new federation. They decided, in closed-door sessions, to divide the country without holding a referendum even though the federal constitution required it. The federal assembly ratified the decision in November 1992.

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trickle down to
them.*

Meciar's second government soon polarized around the personality of the prime minister, dividing loyalists from dissenters, some of whom defected from Meciar's Movement for a Democratic Slovakia. Meciar attempted to hold his government together by signing a coalition agreement with the ultranationalist SNS in February 1994. However, the exodus from HZDS continued. In March 1994, Meciar lost a vote of confidence and was replaced as prime minister by Josef Moravcik, a former member of HZDS and the leader of a broadly based center-left coalition headed by a new party, the Democratic Union (DU). New elections were called for the fall.

As in Poland, Slovakia's former Communists have adopted modern political campaign tactics. Meciar and the HZDS distributed free campaign videos and a campaign song on tape cassettes. They held rallies and handed out pencils, posters, children's games, candy, "Meciar coffee," and packets of sugar with HZDS insignia. To downplay Meciar's negative image, HZDS television ads featured, among other cozy images, a shot of the leader in conversation with his mother in the garden of her home.

In contrast, the Democratic Union campaign was disorganized. Although it spent a great deal on advertising, local DU party workers did not receive adequate guidance from the national campaign staff in Bratislava. When the vote was tallied, Moravcik's Democratic Union took only 8.6 percent; the HZDS received 35 percent and Meciar returned to head the Slovak government once again.

Meciar immediately set out to take control of key positions and institutions. He replaced parliamentary officials with his allies; in November 1994, during the "night of the long knives," his coalition, in a series of no-confidence votes, deposed the ministers of privatization and interior and recalled the attorney general. The privatization law was changed to shift responsibility to a "parliament-directed" National Property Fund, and a September 1994 plan adopted under the Moravcik government to implement the second wave of voucher privatization was revoked. A new parliamentary committee, composed solely of HZDS members and the two minor parties in its governing coalition, was set up to oversee the activities of the Slovak Intelligence Service. Meciar also began a series of attempts to dismiss the president of the republic, Michal Kovac. Slovaks across the spectrum of the political opposition see Meciar's moves as possible precursors to a new authoritarian regime.

RETURN TO AUTHORITARIANISM?

Others also fear a "return" to authoritarianism in Slovakia and fellow postcommunist states. The sudden need to explain why history is beginning again has evoked a new orthodoxy of cultural explanations from those disenchanted by the "failure" of transition states to achieve the predicted liberal nirvana. Some suggest that authoritarianism is traditional. Others argue that the people who lived for years under communism have "learned dependency" and choose authoritarian leaders because they are unwilling or afraid to accept responsibility for themselves. The growth of nationalism in Central and Eastern European states is explained as a resurgence of "ancient hatreds" and the need to find scapegoats for the myriad failures of postcommunist regimes. Such explanations "come too easily and self-servingly out of the mouths of intellectuals and political elites," and it is not difficult to see why.² They exonerate the same intellectuals and elites from any culpability, a point that will be examined later.

Despite the popularity of theories blaming the masses for the slow transition to democracy, Slovak citizens have not been passively waiting for capitalism and democracy to trickle down to them. Slovakia is full of new entrepreneurs. Some started simply, buying goods abroad that were not available

at home, such as computer equipment, and importing them for resale. Others became translators, tutors, and computer consultants, or established manufacturing firms that produce everything from business cards to surfboards. Their energy and willingness to take risks have contributed to the Slovak economy's strong growth in the past three years.

Slovaks are entrepreneurial in politics as well, participating in grassroots organizations that range from those promoting commerce and industry to self-help groups, local civic leagues, and groups concerned with transnational issues such as human rights and the environment. In December 1994, 15 percent of the Slovak population belonged to the nonprofit, or "third" sector, which continues to grow at a rapid rate (the first sector is the government; the second, the economy).

An examination of human rights in Slovakia reveals why so many people are involved in vigorous grassroots activity.

The controversial preamble to the Slovak constitution begins with the words "We, the Slovak people (nation)." In the Slovak language, "nation" refers to the ethnic Slovak majority, not to all the citizens of Slovakia. Political parties representing the Hungarian minority, which comprises about 11 percent of Slovakia's population, argue that this clause discriminates against ethnic Hungarians.

Another controversy is over the role of law. The Slovak constitution guarantees a number of human rights: political, civil, economic, social, and cultural. In addition to guaranteeing freedom of thought, conscience, religion, association, expression, and information, the constitution also provides the right to fair working conditions—including the right to compensation, the setting of maximum working hours, and the right to collective bargaining—as well as the right to education.

At the same time, however, the constitution allows these guarantees to be limited by law. Ordinary legislation, passed by a simple majority, can overturn rights that are constitutionally guaranteed. No limits are imposed on the legislature; "majoritarian totalitarianism" remains a possibility. As Bratislava human rights attorney John Young has argued, "This seems to defeat one of the main purposes for having a constitution in the first place: to provide a permanent, stable framework protected from the 'tyranny of the majority' at any given moment in the country's history."

The political opposition has charged repeatedly that the government is violating the human rights of Slovak citizens. According to a June 1996 report

²Martin Krygier, "The Polish Political Miracle: Communists to Communists in Six Short Years," *Quadrant* (June 1996), p. 57.

by the International Helsinki Federation for Human Rights, the Slovak government's actions affecting human rights fall into five main categories: freedom of expression, media, and association; rule of law; tolerance and nondiscrimination; national minorities; and migration.

Like the third sector as a whole, the human rights movement is usually several steps ahead of government efforts to contain it. One example is the campaign to apply international human rights guarantees domestically. The constitution makes the Slovak state the "successor to all the international treaties and agreements binding on the Czech and Slovak Federal Republic," and also gives international instruments on human rights and freedoms precedence over domestic laws where those instruments guarantee greater protection.

Slovakia is a member of the Council of Europe and a party to several human rights agreements, including the European Convention on Human Rights and the Helsinki Final Act and its follow-up documents. Jan Klucka, a judge on the Slovak Constitutional Court, has said the main obstacles to incorporating international human rights law into Slovak law are not legal, but practical: few know what the various human rights provisions mean or what procedures to use. The third sector is actively engaged in removing these obstacles. All across Slovakia young people are being trained in human rights and international law so that they may implement those rights on the local level.

POLITICAL LAG TIME

The eagerness with which elites embrace theories that explain the halting progress of democratization in postcommunist states on the basis of dependent, degenerate, and apathetic citizenries is something that bears closer inspection. It is true that the people in transition states "need time" to adjust to more open societies. But the people who seem to need the most time and the most help with adjustment are not the citizens but the political leaders and intellectuals who are so critical of them.

Danica Sivakova, a sociologist working for the Slovak National Assembly's equivalent of the United States Congressional Research Service, has noted that most of the members of the Slovak parliament have had no legislative or governing experience to prepare them for their new roles. Many were low-level party workers or administrators under the old regime, rewarded for obeying orders, not challenging them. Some come from rural areas where they were not accustomed to dealing with foreigners,

lobbyists, or an activist press—not to mention computers, fax machines, and email. Few are as well educated or socially adept as the majority of their fellow citizens in Bratislava. While a significant number take their positions seriously, their learning curve is steep, in part because there is so much that has to be "unlearned."

In Slovakia and other postcommunist states, openness, fairness, accountability, and the rule of law are critical to democratization and liberalization. Elites are responsible for establishing these basic ground rules, but many fail to live up to their responsibilities. Energy, civility, and a capacity to innovate also are important. These qualities are present in Slovakia, in and outside government, yet stories about the vigorous engagement of Eastern European citizens in politics, entrepreneurship, and voluntary associations are less often heard than stories about the latest scandal involving their leaders.

The "first sector," or government leaders, is perhaps the worst offender. The former Communist state is a treasure trove of political power and national wealth. Political alliances are cemented by giveaway privatization in twentieth-century Slovakia in much the same way that Henry VIII amassed support in the sixteenth century by giving his allies choice properties seized from the Church.

Abuses of power are capable of wrecking the economy as well as individual lives. For example, the privatization program initiated when the Slovaks and Czechs were still united was designed to distribute the economic resources owned by the state as widely as possible among the general population. It operated through a voucher system allowing people to bid for shares in enterprises being privatized. As noted earlier, this program was derailed after the 1994 elections. In June 1995, the vouchers held by Slovak citizens were turned into bonds redeemable in 2001—maybe. Meanwhile, as the November 10, 1995, *PlanEcon Report* noted, "Mr. Meciar's government has held a fire sale of state firms and sold property with a book value of SK20 billion in six months for which it received barely SK3 billion."

The buyers of those state enterprises are now seeking to acquire bonds held by citizens for the equivalent of 75 cents on the dollar. They can apply them at face value to pay for their purchases from the National Property Fund, one of the few legal uses of these bonds prior to their official redemption date. Only people holding government licenses can buy the bonds. Citizens are trapped into holding their bonds and hoping for full redemption in

2001, or selling them for whatever they can get to the elite few whose relationship to the prime minister gives them that privilege.

The power struggle also is important. Democratic states and societies manage political transitions through elections, and leaders who want to be elected must appeal to voters. As long as Meciar is the only party leader investing heavily in campaigning in the countryside, the HZDS will continue to attract a substantial proportion of the rural vote. Resting on one's laurels as a former dissident is not enough to win an election—as President Lech Walesa discovered in Poland in 1996. Voters are not in the business of anointing saviors; they elect political leaders, and can vote them out of office just as easily.

It is also important to note that neither winner in the 1994 election in Slovakia or the 1996 election in Poland attracted a majority of the vote. Meciar and the HZDS won 35 percent, meaning 65 percent of Slovak voters preferred other parties. Had there been fewer parties—better organized, and more broadly based—the outcome could have been different. In Poland no candidate won a majority in the first round of voting and even in the runoff, the spread between “reformed” communist Aleksander Kwasniewski and Walesa was only 2 percent. Neither outcome signifies a groundswell of support for authoritarianism.

The “second,” or business, sector could speed liberalization if it took a broader view of its interests. The link between politics and money works both ways. Business leaders can use their economic leverage to press for moderation in government policies, especially when those policies affect business operations. The business sector should also

take a closer look at the third sector's contribution to a healthy economic environment. Nonprofits in Slovakia, as in other countries, depend on financial contributions from the state and private donations. If the Slovak third sector is to escape absorption into the state, the business sector will have to take more financial responsibility to ensure its continued independence.

Outsiders are also crucial to whether transitions succeed, stall, or fall back. During the next several months NATO and the European Union will be making important decisions about which postcommunist states will be among the first group eligible for membership in these regional organizations. Both NATO and the EU have warned that only democracies are eligible. Is Slovakia a democracy? Compared to other NATO and EU members, support for democracy among the citizens of Slovakia is strong even though but the behavior of their elected leaders has been disappointing. Looking only at the governing coalition, it may be easy to conclude that Slovakia should wait until it is more democratic—but this ignores the political opposition, judicial institutions and processes, and an active citizenry, all of which display democratic credentials comparable to their counterparts in the NATO and EU states.

Ultimately, the democracy is more than a government. Like “transition,” it too is a process. This discussion began with a consideration of the naive optimism that equated the fall of communism with the end of history. But history has not ended, and looking back at America's own past, we can see that democracy is not an inevitable outcome. Democracy is the result of struggle; as Thomas Jefferson once observed, those who want to keep it must understand that the struggle never ends. ■

BOOK REVIEWS

ON EUROPE

Assessing Democracy Assistance:

The Case of Romania

By Thomas Carothers. Washington, D.C.: Carnegie Endowment for International Peace, 1996. 144 pp., \$12.95, paper.

Romania after Ceausescu

By Tom Gallagher. Edinburgh: Edinburgh University Press, 1995. 256 pp., \$29.50, paper.

Ceausescu and the Securitate: Coercion and Dissent in Romania, 1965-1989

By Dennis Deletant. Armonk, N.Y.: M. E. Sharpe, 1995. 424 pp., \$65.

When Romania finally overthrew its "megalo-maniac" Communist dictator, Nicolae Ceausescu, quickly and violently in December 1989, the last bastion of communism in Eastern Europe fell. Because it had not undergone a period of liberalism or gradual depoliticization, Romania's transition from communism was markedly different than in neighboring countries. Romania emerged trapped in a stagnant "democratic state" led largely by "reformed" members of the Communist Party. Thomas Carothers, Tom Gallagher, and Dennis Deletant address specific issues that kept the country frozen in its transitory state: external democracy assistance programs, nationalism, and the legacy of Ceausescu's Securitate.

In his comprehensive and thought-provoking study of past and present assistance to Romania, Thomas Carothers attempts to redress what he calls a general ignorance of United States democracy assistance work in practice. He identifies and analyzes seven primary areas that have formed the core of most United States democracy assistance programs, including those in Romania: political parties, elections, rule of law, parliament, civil society, trade unions, and the media. Carothers objectively discusses the strengths and failings of the various programs, revealing that the stagnant nature of Romanian politics and society in the post-transition phase makes it an excellent case study for showing the "value, strategies, methods, and future" of democracy assistance programs. Carothers concludes with the observation that "the case for democracy assistance may at times depend less on the specific impact of the assistance on others than on what the assistance says and means about ourselves."

Tom Gallagher examines one of the greatest hindrances Romania faces in developing democracy: nationalism. Although Romanian nationalism has not reached the intensity found among its eastern neighbors, the country's long history of divisions, especially between Romanians and ethnic Hungarians, encumbers its transition to an egalitarian and democratic society. His well-researched historical study unfolds the layers of Romanian nationalism as it has developed from the pre- to the postcommunist era.

While psychologically manipulating Romanians by teaching them to hate the outside, especially the West, and inciting nationalism, Ceausescu physically controlled the people through the terror of his internal security force known as the Securitate. Dennis Deletant offers a detailed look at the rise of the Securitate to show how Ceausescu and the Communist party nearly paralyzed an entire society.

All three authors acknowledge the optimism that initially suffused Romania in early 1990, but their conclusions about the present are bleak. Deletant explains it best. In mid-1990 optimism gave way to disillusion as people realized that their "revolution" had been stolen by a government calling itself the National Salvation Front, a government that was composed of former Communist Party members who had merely "exchanged their Communist Party cards for those of the National Salvation Front." The NSF, with its reliance on control and manipulation, bore more than a slight resemblance to Ceausescu's Communist Party. Speaking of Ceausescu's government, but with foresight, Deletant notes that a government that "fails to satisfy the needs of the people, and attempts to cover up the injustices of the past, runs the risk of generating a cancerous sapping of its authority." That lack of authority will drain its ability to govern.

In the fall of 1996, long after Carothers's, Gallagher's, and Deletant's books had gone to press, Romanians voted Ion Iliescu and the Party of Social Democracy (the NSF's nominal successor) out of power; longtime opposition leader Emil Constantinescu now leads the country. Although a change in power has not necessarily meant political and economic improvement, there is again hope for the future in Romania.

Sarah E. Robinson

Srebrenica: Record of a War Crime

By Jan Willem Honig and Norbert Both. New York: Viking Penguin Books, 1997. 185 pp., \$11.95, paper.

For General Ratko Mladic, the Bosnian Serb army commander, the capture of predominantly Bosnian Muslim Srebrenica—a UN-designated “safe area”—on July 11, 1995, was “a present to the Serb nation.” For those who negotiated the Dayton accords, it was something not to be discussed. For those who insist on recording facts plainly, it was, as Honig and Both put it, “the largest single war crime in Europe since the Second World War.”

Srebrenica grimly details the events that led up to the enclave’s fall, and the Bosnian Serb army’s systematic murder of several thousand Muslim men and boys in the days following Srebrenica’s takeover. It is easy to agree with the authors that this was a war crime; it is hard to understand why Ratko Mladic, who has been indicted for the killing at Srebrenica, remains free today.

William W. Finan, Jr.

Unfinished Peace: Report of the International Commission on the Balkans

Washington, D.C.: Brookings Institution Press, 1996. 198 pp., \$14.95, paper.

Committee reports generally represent lowest common denominator thinking; consensus is the aim, and milquetoast findings the result. The report of the International Commission on the Balkans, which was sponsored by the Carnegie Endowment and the Aspen Institute, stands this charge on its head with its unbiased, critical observations, level-headed analysis, and practical recommendations—all of which were lacking during much of the Bosnian conflict. Those wanting to understand what has happened in the Balkans since 1989, and what remains to be done, will find *Unfinished Peace* essential reading.

W. W. F. ■

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Volume 4: “Latin America: Open for Business?”

The prospects for economic integration after NAFTA along with the economic travails of Mexico and the market successes of Chile are among the topics covered in this assessment of the new business climate in Latin America.

THE MONTH IN REVIEW

January 1997

INTERNATIONAL

Middle East Peace Process

Jan. 15—Israeli Prime Minister Benjamin Netanyahu and Palestinian Authority President Yasir Arafat meet at the Gaza Strip border with Israel to sign an accord on a partial Israeli military withdrawal from the West Bank city of Hebron; the agreement provides for joint patrols, segregated road construction, and buffer zones to protect Israeli settlers in Hebron, and a Palestinian police force of up to 400 members; in a separate letter of assurance, Israel agrees to 3 additional West Bank withdrawals in mid-1998.

ALBANIA

Jan. 19—In Tirana, riot police clash with protesters demanding government compensation for money lost in unregulated "pyramid schemes"; opposition leaders have accused the ruling Democrats of financing their 1996 campaign with money from such schemes; President Sali Berisha has denied government involvement and promised jobs and bank credits to people who have lost money in the schemes.

Jan. 23—The government bans pyramid schemes.

Jan. 26—In Tirana, 35,000 protesters clash with riot police; protesters set fire to buildings in Lushnja, Patos, and Vlora; lawmakers hold an emergency session to give special powers to President Berisha, including authorizing the military to guard roads and government buildings.

ALGERIA

Jan. 24—President Liamine Zeroual blames "traitors" serving "foreign interests" for a wave of car bombings and other violence that has left some 200 people dead since Ramadan began on January 10; the killings have been attributed to the Armed Islamic Group, a guerrilla army that had threatened violence during Ramadan.

Jan. 28—A gunman kills Abdelhak Benhamouda, the leader of Algeria's largest labor union, along with his bodyguard and another union official; Benhamouda, an ally of President Zeroual, announced 10 days ago that he intended to form a political party to compete in legislative elections in June.

Jan. 30—Habib Khelil, a retired general, is assassinated in Oran, in western Algeria.

AUSTRIA

Jan. 18—Chancellor Franz Vranitzky announces his resignation; he is expected to be replaced by fellow Social Democrat Viktor Klima, the current finance minister.

BULGARIA

Jan. 3—Thousands of protesters gather in front of Socialist Party headquarters in Sofia, demanding that the party give up power and schedule early elections; Socialist Prime Minister Zhan Videnov and his cabinet resigned last month because of widespread anger at government economic policies.

Jan. 10—Protesters vow not to allow the approximately 100 Socialist legislators they have trapped inside the parliament building in Sofia to leave until they agree to hold new elections.

Socialist lawmakers refuse to vote on a parliamentary motion to call early elections, prompting opposition Union of Democratic Forces (UDF) legislators to walk out.

Jan. 11—Police rescue the Socialist lawmakers trapped inside parliament; Ivan Kostov, leader of the UDF, calls for a nationwide strike; President Zhelyu Zhelev, a UDF member, announces his support for the protests but also his disapproval of violence.

Jan. 14—President Zhelev says that he will not ask the Socialists to form a new government until they and the UDF reach agreement on new elections and economic reconstruction; Zhelev's term ends on January 19, when he will be replaced by fellow UDF member Petar Stoyanov, who was elected in November.

Jan. 15—At least 30,000 people demonstrate in Sofia on the 9th day of antigovernment protests.

Jan. 19—Stoyanov is sworn in as president and immediately calls for new parliamentary elections.

Jan. 28—Socialist Party leaders say that they will form a new government to be led by former Interior Minister Nikolai Dobrev, but that they are willing to hold elections in the fall, more than a year early.

CENTRAL AFRICAN REPUBLIC

Jan. 4—A civilian and 2 French soldiers are killed in a battle in Bangui between French troops and army mutineers; the mutiny began on November 15; France, which has 2,000 troops in its former colony under a defense pact, has repeatedly intervened to keep President Ange-Félix Patassé in power.

Jan. 5—French troops kill at least 10 mutineers and seize a rebel base in Bangui.

Jan. 25—President Patassé, army mutineers, and members of the opposition sign a peace agreement in Bangui that calls for a government of national unity, amnesties for the mutineers, restoration of the constitution, and a transition to democracy; an all-African peacekeeping force of 500 will replace French troops and monitor compliance with the accord.

FRANCE

Jan. 12—Corsican separatists attack a beach settlement in Porto Vecchio; no injuries are reported.

Jan. 24—The French daily *Le Monde* reports that last month President Jacques Chirac and German Chancellor Helmut Kohl agreed to discuss a common nuclear deterrence policy within the framework of a European defense policy.

GERMANY

Jan. 7—A Bosnian refugee facing deportation from Germany hijacks an Austrian Airlines plane bound for Vienna; he is arrested after the plane returns to Berlin.

INDIA

Jan. 2—The rebel Bodoland Liberation Tigers Force claims responsibility for the December 30 bombing of a passenger train in the state of Assam that killed 38 people, and for 2 bridge bombings in the last several days that disrupted traffic to and from Assam; the group pledges to continue its attacks until the Bodo people are granted their own state within India.

- Jan. 3—In Srinagar, a bomb kills 7 people near the home of Jammu and Kashmir Chief Minister Farooq Abdullah; a Kashmiri separatist group claims responsibility.
- Jan. 4—Two bombs explode in New Delhi, killing 1 person and wounding 11; no one claims responsibility for the attacks.
- Jan. 22—The Bodoland Liberation Tigers Force, facing a crackdown by security forces, says it is suspending its violent campaign for a separate Bodo homeland.

IRAQ

- Jan. 3—The Foreign Ministry calls on Turkey to withdraw from northern Iraq; 150 Turkish Kurds have been killed since 5,000 Turkish troops crossed into northern Iraq on December 30 to attack Turkish Kurdish guerrillas.

ISRAEL

- Jan. 1—In the West Bank city of Hebron, 6 Arabs are wounded when an Israeli soldier opens fire at a Palestinian market; the soldier, who has a history of psychiatric problems, says the attack was an attempt to derail negotiations on Israeli withdrawal from Hebron.
- Jan. 9—In Tel Aviv, 13 people are wounded when 2 pipe bombs explode; no one takes responsibility for the bombing.

KOREA, SOUTH

- Jan. 6—Strikes that began on December 26 resume throughout the country after a New Year's holiday; the outlawed Korean Confederation of Trade Unions says 190,000 workers are taking part; the workers are protesting a new labor law, passed in a secret predawn December 26 session of ruling New Korea Party legislators, that severely curtails workers' rights; the New Korea Party says its secret session was necessary because opposition parties physically blocked attempts to convene the legislature.
- Jan. 18—The Korean Confederation of Trade Unions announces that workers will return to their jobs January 20 and strike only on Wednesdays; the unions warn that wider strikes will resume if the government does not agree to repeal the new labor law by February 18.

LEBANON

- Jan. 5—Israeli jets launch 2 strikes against Hezbollah targets in southern Lebanon; the attacks are in retaliation for Hezbollah attacks that injured 3 Israeli soldiers earlier today.
- Jan. 30—Hezbollah claims responsibility for a roadside bombing that killed 3 Israeli soldiers and wounded another near the village of Deir Siryan in Israel's self-declared "security zone" yesterday.

MADAGASCAR

- Jan. 31—Didier Ratsiraka, the country's military ruler from 1975 to 1992, is sworn in as president after the constitutional court declares him the winner of the November 3 and December 29 elections.

NIGERIA

- Jan. 14—A bomb destroys a bus outside an army barracks in Lagos, killing 2 soldiers and wounding 27; no group claims responsibility.

PAKISTAN

- Jan. 18—A bomb kills 25 people and wounds more than 100 outside a courthouse in Lahore; a militant Shiite group is suspected.
- Jan. 19—A mob of about 500 Sunni militants sets fire to an Iranian cultural center in Lahore; the militants accuse Iran of

inciting violence by Pakistani Shiite Muslims, and demand that Pakistan sever diplomatic relations with Iran.

- Jan. 29—The Supreme Court upholds the November ouster of Prime Minister Benazir Bhutto and her government on corruption charges.

PERU

- Jan. 1—Tupac Amaru guerrillas release 7 hostages; 74 others remain captive at the Japanese ambassador's residence in Lima, where more than 500 people were taken hostage on December 17, 1996, by the guerrillas in an attempt to gain the release of imprisoned guerrillas.
- Jan. 26—Citing health reasons, the rebels release a hostage, the 1st since January 17.

RUSSIA

- Jan. 4—In Moscow, President Boris Yeltsin meets with German Chancellor Helmut Kohl to discuss NATO expansion and other issues in Yeltsin's 1st meeting with a Western government leader since undergoing cardiac bypass surgery in November 1996.
- Jan. 8—The government announces that Yeltsin has been hospitalized for pneumonia.
- Jan. 13—Viktor Mikhailov, the head of the Ministry of Atomic Energy, announces at a news conference that Russia will remove nuclear material from a Georgian reactor outside Tbilisi; US officials concerned about the terrorist threat posed by the material have repeatedly requested its removal.
- Jan. 22—The lower house of parliament adopts, in a 229-63 vote, a nonbinding resolution calling for President Yeltsin's resignation.
- Jan. 29—Preliminary results for presidential elections in the Chechen republic held January 27 show that Aslan Maskhadov, the Chechen military chief, has won with approximately 64.8% of the vote; Shamil Basayev, a separatist commander, received 22.7%; Russian troops withdrew from Chechnya in December under the August 1996 cease-fire that ended the 21-month war for Chechen independence.

RWANDA

- Jan. 3—A court in Kibungu sentences 2 men to death for organizing massacres in the 1994 genocide of at least 500,000, mostly Tutsi, Rwandans; some 85,000 people are awaiting trial for taking part in the killings; the Rwandan trials are separate from those planned by the International Criminal Tribunal for Rwanda, based in Arusha, Tanzania.
- Jan. 19—Hutu militiamen kill 3 Spanish aid workers and wound an American aid worker in an overnight attack on a compound used by several international aid groups in Ruhengeri, in northwest Rwanda.

SERBIA

- Jan. 2—The Serbian Orthodox Church condemns the government for engaging in fraud in the November 17 municipal elections; protesters have gathered by the thousands in the streets of Belgrade and in smaller numbers in other cities every day since the government annulled victories by the opposition coalition, Zajedno, in a number of major cities, including Belgrade.
- Jan. 6—In an Orthodox Christmas Eve rally, some 200,000 protesters march through Belgrade to St. Sava Cathedral to hear church leaders criticize the government.
- General Momcilo Perisic, Serbia's military chief, assures student protest leaders that the army will not intervene; the army also issues a statement calling for a peaceful resolution of the crisis.

SINGAPORE

Jan. 2—The ruling People's Action Party wins 81 of 83 seats in today's general election, prompting Prime Minister Goh Chok Tong to declare that voters had "rejected Western-style liberal democracy and freedoms"; opposition parties had fielded candidates in only 36 of the 83 races.

SOUTH AFRICA

Jan. 3—The Boer Attack Force, a previously unknown Afrikaner group, claims responsibility for a December 24 bombing near Cape Town that killed 4 people and wounded more than 60; the group demands the release of all Afrikaner "freedom fighters."

Jan. 5—The Boer Attack Force claims responsibility for 3 bombings today in the small town of Rustenburg; 2 people were injured in the bombings.

Jan. 22—The government says it will consult with the US before deciding whether to go ahead with a proposed arms sale to Syria; the US had threatened to reduce aid to South Africa after it learned of the planned sale earlier this month.

Jan. 28—The Truth and Reconciliation Commission announces that 5 former policemen have confessed responsibility for the 1977 death of antiapartheid activist and Black Consciousness Movement leader Steve Biko.

SPAIN

Jan. 8—An army officer is shot and killed in Madrid, apparently by a member of the ETA, a Basque separatist guerrilla group.

SRI LANKA

Jan. 1—Government troops kill at least 19 Tamil rebels and overrun a rebel base at Rukam, about 150 miles east of Colombo; military officials say they launched an offensive yesterday to counter a buildup by the separatist Liberation Tigers of Tamil Eelam in the eastern part of the country.

Jan. 23—The *Far Eastern Economic Review* reports that Tamil Tiger rebels recently attacked the town of Paranthan, south of the Jaffna Peninsula; more than 220 government troops and 140 rebels were reportedly killed in the fighting.

SUDAN

Jan. 20—Opposition leaders report that a major rebel offensive that began January 12 has brought the rebels within 45 miles of Damazin, a strategic city with a hydroelectric station that powers Khartoum, the capital; the rebels represent a coalition of mainly Muslim northern opposition groups and predominantly Christian and animist southerners.

SWITZERLAND

Jan. 2—Economics Minister Jean-Pascal Delamuraz says he regrets any grief caused by his statement 2 days ago (the last day of his term as president, a post that rotates yearly) that demands by Jewish groups for compensation for Jews unable to locate World War II deposits in Swiss banks were "blackmail."

Jan. 23—The government, banks, and businesses agree to establish a memorial fund for Holocaust victims; the details of the fund remain to be worked out.

SYRIA

Jan. 10—A militant Islamic group, the Islamic Movement for Change, announces that it is responsible for the December 31, 1996, bus bombing in Damascus that killed 11 people; the group, which in today's statement also claimed responsibility for a November 1995 bombing in Saudi Arabia that killed 5 people and participation in the 1996 Dhahran bombing that

killed 19 US servicemen, says it carried out the Damascus bombing in retaliation for the 1996 death of one of its members who it says participated in the Dhahran bombing.

UNITED KINGDOM

Great Britain

Jan. 13—A letter bomb injures 2 mail clerks at the London offices of *Al Hayat*, an Arabic language newspaper owned by Saudi Prince Khalid Ibn Sultan; 3 other letter bombs at the paper's London offices and 2 at its UN offices in New York are disarmed; a Saudi official announces that the paper had received and disarmed letter bombs at its Riyadh headquarters on January 4 and January 11.

Hong Kong

Jan. 19—Legislation is introduced in China's parliament that would overturn 16 Hong Kong laws, including several major provisions of the 1992 Bill of Rights, when the territory reverts to Chinese rule on July 1.

Jan. 23—Tung Chee-hwa, who will be Hong Kong's chief executive under China, proclaims his support for Beijing's plans to repeal laws protecting civil rights in Hong Kong.

Northern Ireland

Jan. 6—Irish Republican Army guerrillas fire a grenade at Belfast's main courthouse; 1 police officer is wounded in the attack.

UNITED STATES

Jan. 3—President Bill Clinton announces that he will postpone for at least another 6 months enforcement of a portion of the Helms-Burton law that enables US citizens and corporations to sue foreign companies that use US citizens' or corporate property seized in the 1959 communist revolution in Cuba; Clinton says the US will enforce other aspects of the law, such as barring travel by executives of such companies and their families to the US.

The Federal Bureau of Investigation (FBI) begins an inquiry into a series of letter bombs mailed to the US and bearing Alexandria, Egypt, postmarks; yesterday a total of 7 letter bombs were discovered in the Washington, D.C., area and in Leavenworth, Kansas, and another was found today at a federal mail facility in Leavenworth.

Jan. 15—Clinton announces that Mexico has repaid in full the \$12.5 billion it borrowed in 1995 to avert a financial collapse; complete repayment of the loan was not required until 2000.

Jan. 16—Outside Atlanta, 2 bombs explode at an abortion clinic, injuring 6 people.

Jan. 19—In Tulsa, 2 bombs explode outside an abortion clinic; there are no injuries; on January 1, 2 firebombs exploded at the same clinic.

Jan. 20—In Washington, D.C., President Bill Clinton is sworn in for a 2d term.

Jan. 22—The Senate unanimously confirms Madeleine Albright as secretary of state; she is the 1st woman to hold this position.

ZAIRE

Jan. 3—Rebel Mai-mai fighters attack Butembo, a town in eastern Zaire controlled by the rebel Alliance of Democratic Forces for Liberation, sparking a battle that leaves 5 Mai-mai fighters and 6 civilians dead; a similar attack on Butembo 2 days ago left 15 civilians, 4 Mai-mai, and 3 alliance rebels dead; the Mai-mai had fought with the alliance to capture much of eastern Zaire, but relations deteriorated after Mai-mai fighters reportedly tried to assassinate the rebels' military leader, André Kissasse, in Beni about 2 weeks ago. ■



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